FINANCIAL TIMES

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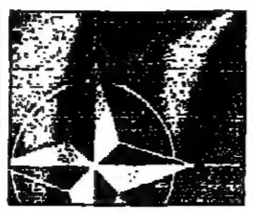

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WORLD NEWS

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Milosevic's wife slates US
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Spain moves on Basque activists
Spanish police delivered a jolt to the peace process in the Basque region with a series of arrests in the San Sebastian area, the main operational base of Eta, the armed separatist organisation. **Europe, Page 2**

'Cybersquatters' reap rewards
Globalvision.com, a UK group, has paid $2m for the internet domain names Britain.com, London.com and England.com, highlighting the profits that can be made by "cybersquatters", who register names in the hope of selling them on. **UK, Page 8**

Pressure on Cresson to resign
Members of the European Parliament stepped up pressure for the resignation of Edith Cresson, the *European Union* education commissioner. **Europe, Page 2**

Bond yields soar in Ecuador
The deteriorating state of Ecuador's banking system and risk of a default on its external obligations have pushed the country's bond yields up, making it the world's second riskiest market after Russia. **Page 14**

Brazil eyes return to markets
Brazil hopes to return to international capital markets in April once the International Monetary Fund has approved a $9.2bn tranche of loans to the country. **Americas, Page 5**

Internet music sales to hit $4bn
Nearly $4bn worth of music will be sold over the internet, or other digital distribution systems, in five years' time, according to a new study. **Trade, Page 6**

Assassin kills Deloitte accountant
A senior partner working in the Thai office of accountants Deloitte Touche Tohmatsu has been shot dead in an apparent assassination. **Asia-Pacific, Page 4**

Manila calls for closer US ties
Joseph Estrada, president of the Philippines, called for closer ties with the US amid growing tensions in the South China Sea over the disputed Spratly Islands. **Asia-Pacific, Page 4**

Online art auction shows up snags
The online auction of Ansel Adams prints this week has given an early glimpse of the advantages and obstacles ahead in the push to sell art works on the internet. **US, Page 5**

N Ireland bill to go to Congress
A bill to meet Northern Ireland's claims to special trade relations with the US is likely to go before Congress soon. **UK, Page 10**

BUSINESS NEWS

Spurned Nissan looks for links with other carmakers

Nissan Motor is to explore links with other motor companies after DaimlerChrysler decided not to take a stake in either the troubled Japanese carmaker or Nissan Diesel, its commercial vehicles arm. **Companies and markets, Page 15; Lex, Page 14; Red-faced Nissan, Page 18**

MasterCard International, the global credit card association, is halving the size of its board to give greater influence to its biggest member banks, in the latest escalation of the battle between Visa and MasterCard. **Companies and markets, Page 15**

Cathay Pacific, the Hong Kong-based airline, returned its first annual loss since 1963 following a regional downturn and excess capacity in the industry. **Companies and markets, Page 15**

The Nikkei 225, key indicator to the Japanese equity market, rose 2.5 per cent to 15,480 – its highest level for seven **Page 14**

Reliant Energy, of the US, is leading the way into Europe with the $2.4bn purchase of Energie Produktie Bedrijf, the Dutch generator. **Companies and markets, Page 15**

Japan Tobacco shares fell 4.76 per cent following the company's announcement that it would buy the international tobacco business of RJR Nabisco, US food and tobacco giant, in an $8bn deal. **Asia-Pacific companies, Page 20; Background, Page 16**

Exxon and Mobil's planned merger raises concerns over its impact on competition in almost every sector of the industry, US antitrust officials warned. **Companies and markets, Page 15**

Toys R Us, the world's largest toy retailer, fell into the red after the US group was dogged by restructuring charges and weak sales. **US companies, Page 16**

China is to allow securities brokerages to have access to funds from the interbank market in a move to boost liquidity in the stock markets. **Asia news, Page 7**

Banca Commerciale Italiana, the Milan privatised bank, was at the centre of intense takeover speculation that boosted its shares by 7.5 per cent in late trading. **European companies, Page 19**

DuPont plans to issue a "tracking" stock for its life sciences business and is discussing alliances with potential partners in pharmaceuticals. **US companies, Page 16**

The Czech government has agreed the timing for privatising the country's two biggest banks and moved to double the share capital of one ahead of sell-of. **European companies, Page 19**

UK BUDGET 1999
For news and analysis of Tuesday's UK government Budget, go to the FT web site at www.FT.com/budget

JOINT STATEMENT WITH CENTRAL BANK AS OPPOSITION COMES FROM PARIBAS AND SOCGEN TO BNP'S OFFERS

French government may intervene over surprise bank bids

By Robert Graham and Samer Iskandar in Paris

The French government and the central bank hinted yesterday that they might intervene in Banque Nationale de Paris's unexpected bids for two rivals.

There was also stiff opposition from the two targets, Paribas and Société Générale, which are involved in a month-old agreed merger.

The move by BNP to create a giant French banking group threatens to upset the carefully laid ministry of finance plans over who should control Crédit Lyonnais, whose privatisation is being finalised by the government at the moment.

BNP, SocGen and Paribas are three of only four French banks to have expressed an interest in taking a stake in Crédit Lyonnais. BNP's move is likely to take precedence over other transactions.

The ministry of finance took the unusual step of issuing a joint statement with the Bank of France hinting that the stakes were so high they might make act in the "national interest".

The statement said: "The public authorities hope that all the actors involved will help in producing solutions that fully respect the financial community, the industrial and social interests involved as well as the national interest as a whole."

If BNP's move was successful, the new group would be Europe's largest bank with total assets of €975bn. Each bank would have roughly equal shares of the merged entity's equity.

However, the merger would also unravel the plans – already far advanced – for Paribas and SocGen to join forces.

André Lévy-Lang, chairman of Paribas, and Daniel Bouton, head of SocGen, issued a joint statement yesterday branding the bid as hostile.

"This bid cannot be considered friendly," they said.

Michel Pébereau, chairman of BNP, went to great lengths yesterday to justify his move by insisting it would give better shareholder value.

"This deal will benefit the shareholders, the employees and the clients of the three banks," he said.

He added: "This is the best possible combination for the French banking system."

He further refused to consider his move as a takeover, but rather described it as an "industrial project" between three equals.

However, he left many details unanswered about the deal which is based on a share exchange – 11 BNP shares for eight Paribas shares and 15 BNP shares for seven SocGen.

The lack of detail and the apparent haste with which the plan was put together drew scepticism from analysts who focused yesterday less on the possible synergies and more on the inconsistencies.

Mr Pébereau was seen as too concerned to block the Paribas-SocGen merger that threatened to marginalise BNP.

Mr Pébereau claimed to have achieved savings of almost €1.3bn.

But one analyst questioned his pledge not to cut jobs: "When you go to a small town with branches of all three banks and promise to close none, where are the synergies?"

BNP chairman Michel Pébereau in Paris yesterday

The cool response from the government and the central bank was in marked contrast to the enthusiastic welcome accorded the announcement of the friendly Paribas-SocGen merger.

President Jacques Chirac praised that move for producing a "national champion" to help France compete in the globalising financial markets.

Little attention yesterday was devoted to threats from the World Jewish Congress in New York that the merger might be hostage to negotiations on compensation for Holocaust victims.

Dangerous liaisons, Page 13
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Lex, Page 14

COMMISSIONER BELIEVES THAT INFORMAL CONTACTS HAVE ACHIEVED PROGRESS IN ENDING TRADE DISPUTE

US and EU consider further banana talks

By Guy de Jonquières

The US and the European Union agreed yesterday to consider launching a concerted push for a quick solution to their dispute over trade in bananas.

Sir Leon Brittan, EU trade commissioner, told Charlene Barshefsky, US trade representative, that he believed informal contacts between Washington and Brussels had achieved progress, and that he was ready to intensify discussions.

Ms Barshefsky said she was prepared to push ahead quickly, but that the EU must show greater flexibility. However, US officials said she did not insist that Brussels should table new proposals as a condition for further talks. An EU official said: "Both agreed to reflect and get back in contact about how to proceed."

The US trade representative said she needed time to consult other officials, including Peter Scher, her top farm trade negotiator, who is expected to contact Brussels when he returns from China tomorrow.

Both sides said that if talks went ahead they would be likely to start next week and would aim to reach an agreement before a World Trade Organisation panel rules on their dispute. A ruling is expected late this month.

The search for a settlement has been made more urgent by last week's US decision to start implementing its threat of sanctions on more than $500m of European exports. The US says the EU has not complied with a 1997 WTO ruling against its banana import regime. The regime favours African, Caribbean and Pacific (ACP) fruit.

Although the EU has since modified the regime, the US says it still discriminates against its distributors of Latin American bananas. The EU says the US sanctions move violates WTO rules. EU officials insist that they and the US have recently narrowed the gap over the basis for a settlement.

They say prospects hinge on whether the US administration is prepared to sell a deal to Chiquita Brands, the biggest US banana distributor, and to Congress.

They say it is in Washington's interest to settle now, because a ruling by the WTO panel would not necessarily give Chiquita the increased access it is seeking to the EU market.

But US officials say the two sides are still far apart on important elements of a deal and call the EU's proposals for a solution inadequate. A big sticking point is the allocation of EU licences for importing bananas. Brussels has suggested that some unused licences reserved for ACP producers could be offered to US distributors. The US says the EU offer is not generous enough.

Some EU officials believe that, however the dispute is resolved, a reduction in ACP countries' market share will be unavoidable, and that these countries will need to be compensated through increased development aid.

Observer, Page 13

China reconsiders devaluation stance

By James Kynge and James Harding in Beijing

Growing strains on the Chinese economy have prompted policymakers to review the conditions under which they might have to devalue the currency.

A government official said any decision to devalue the renminbi would depend on whether China could maintain acceptable levels of economic growth and social stability.

The Chinese authorities have consistently denied devaluation is imminent, but the addition of caveats to the country's long-standing 'no devaluation' pledge gives them more room to manoeuvre if economic conditions worsen or external conditions change.

The official said one external pressure would be a sharp depreciation of the Japanese yen.

China held its currency steady last year in the face of the Asian economic crisis, because it feared a devaluation would trigger further upheaval in foreign exchange markets.

Some commentators still think a devaluation in coming months would prompt a fresh round of currency depreciations in the region. The renminbi is not freely convertible and is kept in a tightly managed range around Rmb8.27 to the US dollar.

The softening of China's stance against devaluation began in January when Dai Xianglong, central bank governor, said China would devalue "only when there is a great imbalance in the balance of payments ... and a great increase in the cost of exports".

The government official added that if current policies failed to curb China's economic slowdown and rising levels of social discontent, then arguments for a devaluation would grow.

Officials have also considered altering the basket of currencies to which the renminbi's value is fixed, to give less weight to the US dollar and more to the yen, the Korean won and the currencies of other trading partners and competitors. The official said such an alternative was not under consideration, but could resurface as an option.

Many economists, in China and elsewhere, believe Beijing does not want to devalue for several months or more, but that its hand may be forced by severe economic challenges.

China's strategy for reaching its goal of 7 per cent growth this year rests on stimulating consumer demand and an active fiscal spending programme.

Editorial Comment, Page 13

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9706.52	(+12.76)
NASDAQ Composite	2391.66	(-1.26)
Europe and Far East		
CAC40	4162.31	(+2.51)
DAX	4721.41	(-37.05)
FTSE 100	6241.5	(+3.8)
FTSE Eurotop 300	1237.69	(-1.66)
Nikkei	15480.00	(+383.30)
US Lunchtime RATES		
Federal Funds	4.612%	
3-mth Treas Bills: Yld	4.6%	
Long Bond	$95\frac{3}{8}$	
Yield	5.57%	
OTHER RATES		
UK: 3-mo Interbank	$5\frac{13}{32}$%	($5\frac{3}{8}$%)
UK: 10 yr Gilt	109.54	(109.24)
Euro Euribor	3.067%	(same)
Germany: 10 yr Bund	97.39	(97.11)
Japan: 10 yr JGB	100.994	(100.768)
NORTH SEA OIL (Argus)		
Brent Dated	$11.495	(11.27)

GOLD		
New York: Comex	$293.2	(292.4)
London:	$292.75	(292.45)
DOLLAR		
New York: Lunchtime		
£	1.6265	
€	0.9138	
SFr	1.46075	
Y	120.055	
London:		
£	1.6274	(1.6148)
€	0.9128	(0.9165)
SFr	1.4602	(1.4649)
Y	119.865	(121.37)
Tokyo Close		Y 120.76
EURO (London)		
$	1.0955	(1.0668)
£	0.6732	(0.6742)
Y	131.312	(132.42)
SFr	1.5987	(1.5949)

London · Leeds · Paris · Frankfurt · Stockholm · Milan · Madrid · New York
Chicago · Los Angeles · Tokyo · Hong Kong

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	Ikr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	Dkr16.00	Latvia	Ls1.65	South Africa	R16
Estonia	EK34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	Fmk13.00(€2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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WORLD NEWS
EUROPE

Serbs keep up hard line on Kosovo

By Guy Dinmore in Belgrade

Mira Markovic, the influential wife of Slobodan Milosevic, Yugoslav president, launched a scathing attack yesterday on the US, comparing it with Hitler's Third Reich, as her husband took a tough stand at a first round of talks on Kosovo with Richard Holbrooke, US special envoy.

At a Belgrade rally of the Yugoslav Left, which she leads in a ruling coalition with Mr Milosevic's Socialists, Mrs Markovic said the US sought world domination, just as Germany had in the second world war.

"Whoever shows disobedience is brutally threatened," she said, referring to Nato's warnings of air strikes against Serbia if it blocks a Kosovo peace deal. "All forms of resistance should be used," she told cheering supporters.

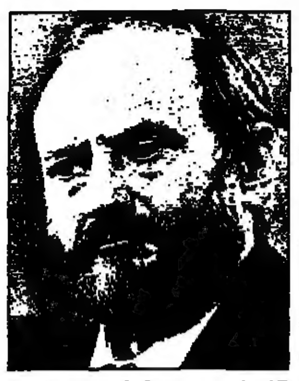
Her hardline speech was mirrored by a tough approach taken by Mr Milosevic in an opening round of talks with Mr Holbrooke.

"Attempts to condition a political agreement on our country's acceptance of foreign troops... are unacceptable," Mr Milosevic said in a statement reported by the official news agency, Tanjug. But diplomats said this was the established pattern in encounters between the two well acquainted adversaries. More substantial discussions were expected at a second session last night.

Mr Holbrooke was expected to use the threat of Nato action and the incentive of a partial lifting of sanctions against Serbia in an effort to persuade Mr Milosevic to accept a peace plan for Kosovo, tabled by international mediators at negotiations in France last month. Peace talks are to resume in Paris on Monday.

Mr Milosevic has repeatedly rejected proposals for a 28,000-strong Nato peacekeeping force to police an interim autonomy deal, which he says gives too many powers to the province's ethnic Albanian majority.

The rebel Kosovo Liberation Army (KLA) has indicated it agrees to the plan, but its refusal to sign so far has weakened Mr Holbrooke's hand.



Poplasen: resisting removal AP

Serbia's nationalist mood was fuelled yesterday when the ultra-nationalist Radical party congratulated five Macedonian waiters who beat up a group of British soldiers in Macedonia.

The crisis in Kosovo has also raised anti-western sentiment among Serbs in nearby Bosnia, where Nikola Poplasen, the hardline nationalist dismissed as president by the international community last Friday, was yesterday refusing to leave.

Mr Poplasen, speaking by telephone from his presidential offices in Banja Luka, said he would resist any attempt by Nato to remove him. Mr Poplasen, who unexpectedly defeated the western-backed favourite in elections last September, accused the west of running Bosnia like a "colony".

"You can sit in your office as long as you like but it doesn't make you a president," one western official responded.

Diplomats were more concerned that the moderate coalition led by Milorad Dodik, prime minister, was showing signs of fragmenting and might be replaced by a hardline alliance led by Mr Poplasen's Radicals.

Carlos Westendorp, the international high representative with sweeping powers in Bosnia, fired Mr Poplasen for "consistently acting to trigger instability".

That move, and the decision to put the Serb-controlled town of Brcko under joint sovereignty with the Moslem-Croat federation, led to a Serb walkout from Bosnia's collective institutions.

Brussels on course to win farm reforms

By Michael Smith in Brussels

The European Commission last night appeared to be winning its fight for fundamental reform of the European Union's Common Agricultural Policy, as farm ministers prepared to negotiate into the early hours of the morning in an attempt to thrash out a deal.

Germany, in its role as EU president, last night unveiled a "final compromise" agreeing to the Commission's proposal for a 20 per cent in cereals prices. Last week, Bonn had suggested 10 per cent would be enough.

The compromise also included proposals for a 15 per cent cut in milk prices and a rise in production-limiting quotas of 1.5 per cent for most countries with additional allowances for Italy, the UK, Greece, Spain and Ireland.

Germany and France had argued for the *status quo* on milk. Yesterday's compromise suggested that countries undertake a review in 2003 "with the aim of allowing the present quota arrangements to run out after 2006".

It also suggested that prices for beef be cut by 20 per cent, less than the 30 per cent sought by the Commission, but at the new level the EU would merely agree to provide storage facilities for the meat and would not buy it as present.

German officials said they expected the talks to go into the early hours of the morning, and that they were hoping for a deal. Farm ministers and diplomats from other countries said a tentative agreement was likely this week, although it could take until tomorrow.

Agreement would culminate more than 18 months of negotiations aimed at agreeing a more competitive farm aid regime as part of a package of EU reforms enabling the Union to enlarge into eastern Europe. Changes to regional aid and budget financing are also being discussed. Any agreement made by farm ministers could be changed by prime ministers due to meet at a summit the week after next.

The farm ministers were aiming to reach a deal satisfying demands from heads of government for a freeze in agricultural spending between 2000 and 2006 at around the 1999 figure of €40.5bn ($44bn). This would be a change of direction for the common agricultural policy, which has grown in virtually every year since it was formed in 1962. However, yesterday's paper made no provision for cutting direct aid to farmers, one of the ideas under consideration in earlier negotiations.

● Germany yesterday pledged to complete the negotiations on reform of the European Union's finances, farm and structural policies that make up Agenda 2000 on schedule at the special Berlin summit of EU leaders later this month, writes Peter Norman.

Brushing aside speculation the negotiations would have to extend well beyond the March 24-25 deadline, Günter Verheugen, Bonn's minister for Europe, painted an upbeat picture of progress so far. All member states had stressed their determination to reach agreement in Berlin, he said.

It was positive that Germany's compromise proposals on the Agenda had been criticised equally by those countries that wanted to spend more and those that wanted to save more.

Acknowledging that no compromises had been reached on the critical issues, he said it was in the nature of the negotiations that agreements would only be reached at the summit.

Later, Mr Verheugen also said it would not be necessary for all elements of the Agenda 2000 package for controlling EU spending and restructuring revenues between 2000 and 2006 to take effect at the same time.

He made clear Britain should draw no conclusions for the future of its EU budget rebate from Bonn's decision to fall into line with French wishes and cease pressing for the national "co-financing" of farm budgets.

Editorial Comment, Page 13

Madrid leads the fight to keep its share of EU's pot of money

In the argument over Agenda 2000 reforms, Aznar cannot afford to lose the funding his predecessor won, **David White** reports

Reforming the Union

Las Navas del Marqués is a village in the Guadarrama mountains between Madrid and Avila, surrounded by weekend homes. Its permanent population of less than 5,000 multiplies seven or eight times in summer.

Soon, work will start on a sewage treatment plant, needed to meet European Union standards. The EU is funding 85 per cent of the €10.5m ($11.4m) needed to build it.

It is no more than people have come to expect in Spain, now engaged in a sometimes lonely fight to preserve just this kind of financial support.

In the increasingly tough argument over the EU's Agenda 2000 reforms, Spain is leading the defence of the so-called structural and cohesion funds, the pot of money for reducing gaps in wealth between different EU countries and regions.

These funds take up more than a third of the total EU budget, the largest slice after farming. The beneficiary countries argue that the whole EU gains, through access to growing markets.

But the broad political support that existed at the time of the last EU financing package has dwindled.

Spain gets more than any other country from these funds. It has been gearing up for two years for the battle to save them, and is having a harder time than expected.

Germany, the chief paymaster, and most other northern members favour limiting the effort over the next seven years to €200bn, below initial European Commission proposals.

Spain is arguing to preserve existing levels, and is resisting attempts to pin them to the average for the 1994-99 financing period. It is defending a ceiling of €239bn, almost 20 per cent higher.

Alongside regional and other "structural" programmes, this includes €21bn for the cohesion fund, which has been paid for the last six years to the EU's four poorest countries.

Payments from the cohesion fund, which go on transport investments and environmental projects such as that in Las Navas, are a small part of the total. They account for 8-9 per cent of overall Spanish receipts from the EU. But their symbolic and political significance in Spain is vastly greater.

The fund was a victory won by Felipe González, the former Socialist prime minister, to help poorer members face up to the challenges of monetary union.

Spain has been getting more than half of it, almost €5bn in transfers to date. José María Aznar, the present prime minister, complained at the time it looked like begging, but cannot now afford to lose what Mr Felipe González, his predecessor, had achieved. The cohesion fund has become Spain's European sacred cow.

The fund was a victory won by Felipe González, the former Socialist prime minister, to help poorer members face up to challenges of monetary union

There was nothing in the deal, Madrid argues, that would disqualify recipients once they achieved euro membership. The qualifying criterion was national income per head below 90 per cent of the EU average.

Spain, now near 80 per cent of the average, says it is ready for an automatic cut-off once that level is reached. For Mr Aznar, this is Spain's "great challenge" over the next 10 years.

But it is increasingly alone in its campaign. Among the other cohesion fund countries, Greece is not yet in the euro and does not face the same challenge to its entitlement. Ireland is already over the threshold and is less concerned about its minority share of this money than the larger amounts involved in losing its claim to the most generous category of EU regional support.

Portugal, which gets a third of what Spain receives from the fund, is more exercised about the threatened loss of regional support for the Lisbon area, which accounts for over 40 per cent of its economic output.

Spain is among the countries facing a shrinkage in regional aid entitlements. Up to now, all its regions except Madrid and those nearest the French border have belonged to the main aid group, with income levels below 75 per cent of the EU average.

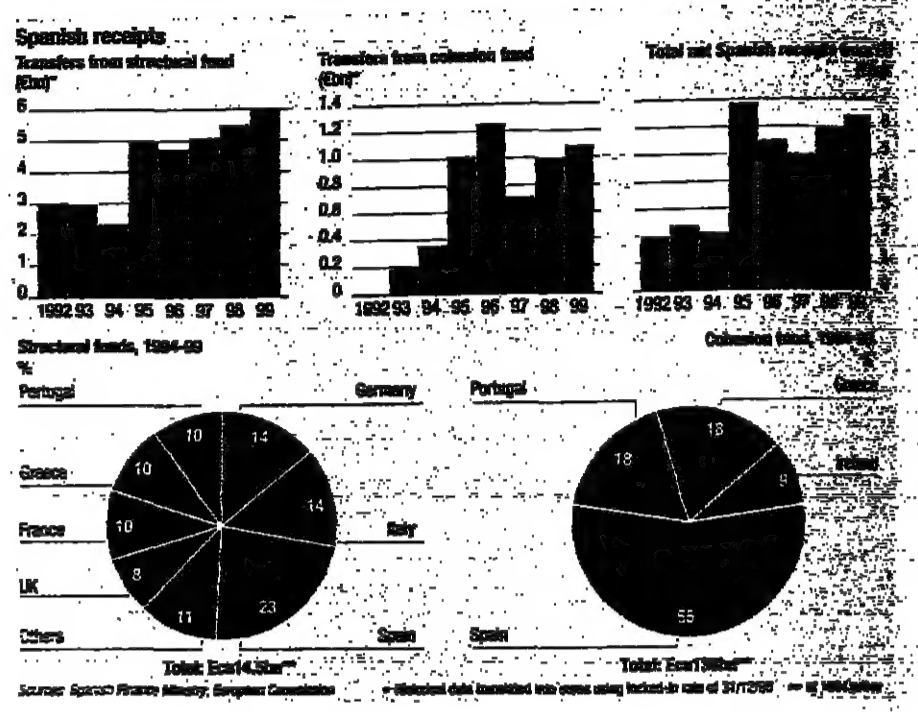
The northern Cantabria region is set to graduate from that group, and others are close. If the EU fails to settle its differences at the Berlin summit in two weeks and the Agenda 2000 argument drags on past the summer, more Spanish regions could meanwhile cease to have priority status.

Terms for softening the impact by gradually phasing-out support have yet to be negotiated. The looming prospect of EU enlargement means many parts of the present 15-member Union will cease to be eligible for special aid in future financing packages.

"This isn't money guaranteed for ever," warns Eneko Landaburu, regional policy director at the European Commission.

Ten years after the EU began making a real effort to tackle internal disparities, the weaning-away process will be a new experience.

For many regional and local authorities, life without EU aid has become hard to imagine. Manuel Rosado, mayor of Las Navas del Marqués, can think of no other way his plant could have been paid for. "It would have been impossible," he says.



Pressure grows on Cresson to resign

By Peter Norman in Strasbourg

Members of the European parliament yesterday stepped up pressure for the resignation of Edith Cresson, the beleaguered European Union education commissioner, just days before a special five-member committee of experts is due to report on how the EU's executive body deals with fraud, mismanagement and nepotism.

Günter Rinsche and Ingo Friedrich, leaders of MEPs from the German Christian Democrat and Christian Social Union parties, renewed calls, first made in January, for the resignation of Mrs Cresson and Manuel Marin, a European Commission vice-president partly responsible for EU external relations.

"These commissioners have since been confronted with new allegations. The CDU/CSU group therefore considers its demands for their resignation have been strengthened and strongly reaffirms them," they said.

But it was Mrs Cresson who appeared most vulnerable yesterday, despite a denial from her office of any wrong-doing.

Pat Cox, chairman of the European Liberal Democrat and Reform group in the parliament, singled out what he claimed were inconsistencies between Mrs Cresson's firm denial of fraud in programmes under her control when giving evidence to the parliament's social affairs committee on January 5, and developments in February when the Commission called in the Belgian authorities to investigate four cases of alleged fraud at Agenor, an external agency running part of the EU's €620m ($675m) Leonardo youth training programme.

Mr Cox's charges were lent support by a letter dated February 18 to Mrs Cresson from Anita Gradin, the commissioner responsible for financial control and fraud prevention, which was circulating among MEPs yesterday.

In the letter to "Dear Edith", Mrs Gradin expressed her "surprise" at remarks of Mrs Cresson in the previous day's Commission meeting when she said she had only been informed of suspected fraud relating to the Leonardo programme on February 16.

To support her case, Mrs Gradin enclosed a copy of a note dated February 10 from another Commission department addressed to Mrs Cresson's *chef de cabinet*, which stated that Uclaf, the Commission's anti-fraud unit, was about to tell the Belgian judicial authorities about the four suspected fraud cases at Agenor.

Mrs Gradin said Mrs Cresson's staff was sent a copy of another note dated February 11, which confirmed the four cases were transferred to the Belgian authorities.

Mrs Gradin also told Mrs Cresson that the head of her cabinet was "briefed by Uclaf on numerous occasions since November last year that four cases" concerning Leonardo and Agenor were under investigation as a result of an internal audit.

"As you know," Mrs Gradin added, "this always implies a lingering suspicion on behalf of Uclaf of the existence of irregularities, corruption and fraud."

The five member-committee of experts is due to present its closely guarded report to the Commission and parliament on Monday evening. Parliamentary leaders and the Commission will meet separately that night to discuss the report's implications before discussing it together on Tuesday.

Individual commissioners, Mr Cox suggested, should resign if singled out for "particular attention in terms of wrong-doing or gross incompetence". They should reflect and "act accordingly", he said.

If they failed to respond, the entire Commission should try to persuade them to consider their position, he added. Hinting at possible censure motions, such as that which shook the Commission in January, Mr Cox said parliament would have to consider intervening if there was no response to an adverse report.

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Spain acts against Basque activists

By David White in Madrid

Spanish police yesterday delivered a further jolt to the struggling peace process in the Basque region with a series of arrests in the San Sebastián area, the main operational base of Eta, the armed separatist organisation.

The police swoop followed closely on the arrest in Paris on Tuesday, in a joint French-Spanish operation, of José Javier Arizkuren Ruiz, alias "Kantauri", alleged to be the commander of Eta's hit-squads, and five other suspected members of the organisation.

These were the first big actions against Eta on either side of the French-Spanish border since the organisation declared an open-ended ceasefire last September.

Eta has issued several statements in the interim reaffirming its ceasefire, but has so far stopped short of calling a permanent end to its 30-year armed campaign. It has also declared its intention of maintaining supplies to its units and defending itself if necessary.

Spanish authorities made clear after the ceasefire they would not suspend efforts to track down Eta suspects. But in practice there was a lull in police raids.

The Paris operation coincided with a meeting in the French capital between José María Aznar, Spanish prime minister, and Jacques Chirac, French president. Shortly afterwards, Spanish paramilitary Civil Guard police also detained a female local councillor belonging to Herri Batasuna, the extremist party linked to Eta, in the region south of San Sebastián.

The subsequent overnight arrests in the region were the result of a separate surveillance operation. Police were thought to have moved in to prevent the Eta suspects from fleeing in the aftermath of the Paris swoop.

Eta's San Sebastián unit has been regarded as the strongest remaining element of its underground network in Spain. The nine people arrested included two men wanted as Eta guerrillas. Police also seized weapons and documents, reported to include a list of possible targets.

Eta's political allies protested against a "chain of aggression". Arnaldo Otegi, Herri Batasuna's spokesman, accused Madrid and Paris of a "reckless strategy" and "political provocation".

The moderate Basque Nationalist party (PNV), which heads a minority regional government in the Spanish Basque country, said the arrests would test the peace process. But it also voiced its conviction that Eta would not resume its campaign of terrorist murders.

The post-ceasefire peace process is currently stalled amid continued outbreaks of political street violence and threats, and a stand-off between Basque parties and Madrid over the latter's refusal to contemplate political or constitutional reforms as a trade-off for peace.

The situation differs from that in Northern Ireland – where the peace process has also become bogged down – in that the Basque region has self-governing institutions already in place, with wide-ranging autonomy. In the Spanish government's view, talks on consolidating peace in the region should focus instead on the future of more than 500 jailed Eta members now in prisons around Spain.

Although the government has held preliminary contacts with people close to Eta, it is waiting for the organisation to name its representatives for talks. Government officials said they hoped the latest police actions would speed up the process.

This view received firm support from the opposition Socialists.

"We're closer to peace today than we were yesterday," said Joaquín Almunia, the party's secretary-general. However, the arrests have also increased fears that Eta sympathisers may step up acts of arson and sabotage, which have continued sporadically in the region since the ceasefire, so far without fatalities.

Kremlin protests at prosecutor's return

By John Thornhill in Moscow

President Boris Yeltsin's failing grip on power was thrown into sharp relief yesterday, when the Kremlin was left to protest impotently over the return to work of Russia's public prosecutor.

Yuri Skuratov resigned as public prosecutor under pressure from the Kremlin on February 1 – ostensibly for health reasons – but popped up in his office again on Tuesday, saying he was working according to his "normal regime".

Mr Yeltsin had already accepted Mr Skuratov's resignation after expressing dissatisfaction with his work. But the upper house of parliament, the Federation Council, insists it has the final say about removing the public prosecutor from office. It plans to discuss the issue on March 17.

The controversy surrounding Mr Skuratov follows the launch of potentially explosive investigations into the central bank's management of its hard currency reserves and the business interests of Boris Berezovsky, the self-styled oligarch, who is closely linked with the Yeltsin family. Russian media speculated Mr Skuratov's decision to resign was prompted by his investigations into Mr Berezovsky. Boris Makarenko, deputy director of the Centre for Political Technologies, said: "The president seems to be less and less in control even of his own spheres of competence. But it is interesting that Skuratov's health has improved at a time when Berezovsky has been sent packing."

Mr Skuratov's reappearance in office also coincides with the return to Moscow of Yevgeny Primakov, prime minister, following a short holiday. Mr Primakov has been urging the public prosecutor's office to crack down on "economic criminals" and root out corruption.

In spite of the growing boldness of Mr Yeltsin's critics, the president may be planning to re-enter the political fray. Izvestiya newspaper reported last night Mr Yeltsin would make an aggressive address this month calling for a relaunch of economic reforms.

There have been rumours Mr Yeltsin wants to fire Yuri Maslyukov, the former Communist parliamentarian, as first deputy prime minister in charge of the economy for failing to clinch a deal with the International Monetary Fund.

Audit 'likely' over the transfer of central bank funds

The man in charge of an obscure company through which the Russian Central Bank channelled billions of dollars to an offshore account in Jersey said yesterday a full audit to support his claim that no wrong-doing took place was likely within weeks, writes **Andrew Jack in Moscow.**

Andrei Movtchan, chairman of the Paris-based institution controlled by Russia's Central Bank, said he was likely to ask his auditors to examine transactions through BCEN-Eurobank's subsidiary, Fimaco.

If the central bank agrees, that could pave the way to a more comprehensive response to allegations about the misuse of national reserves and funds lent to Russia by the International Monetary Fund.

"We are so tired of all these speculations that I think we will ask PriceWaterhouse-Coopers, our auditors, to carry out a special audit of Fimaco's operations to clear up all doubt, since I see that no one believes us," said Mr Movtchan.

Central bank officials have until now kept a low profile in the wake of accusations last month by Yuri Skuratov, the public prosecutor, that they channelled $50bn through Fimaco.

NATO EXPANSION HUNGARY AND THE CZECH REPUBLIC GRAPPLE WITH PROBLEMS AS THEY – ALONG WITH POLAND – PREPARE TO JOIN THE MILITARY ALLIANCE TOMORROW

Ethnic dilemma for Budapest

By Robert Wright in Budapest

Karoly Szenti is indistinguishable, to a foreigner at least, from any other middle-aged Hungarian. He looks Hungarian, speaks Hungarian and seems more at home than other residents of the Bicske Refugee Reception Station, just outside Budapest.

Mr Szenti is an ethnic Hungarian from Yugoslavia. He fled his home in Serbia's northern Vojvodina province last May after the authorities tried to force him into the army. Other Hungarians at the station tell of similar escapes, but also of brothers who were caught and are fighting in Kosovo. Many have families among Vojvodina's 340,000 Hungarian inhabitants.

The group embodies some of the dilemmas for Hungary when it joins Nato tomorrow. While the alliance's policy may be to bomb Serbia if it refuses to sign a Kosovo peace deal, the Hungarian government's role will be sensitive. It cannot refuse to help Nato, but will not promise armed peacekeepers.

The Vojvodina problem is is just one of the complex historical ties with surrounding countries which promise to give Hungary a vital position as Nato's outpost on the edge of Europe's most unruly region.

"I don't think Hungary has come to terms with the different requirements there are going to be on it, for instance, with its special relationship with the Balkans with its [Hungarian] ethnic minorities," says one western diplomat.

Just how rough this neighbourhood can be emerged last month. The new government of neighbouring Slovakia – whose population is more than 10 per cent Hungarian – revealed that its secret service under Vladimir Meciar's previous government sent agents to disrupt Hungary's Nato and European Union integration.

Relations with both Slovakia and Romania have since improved.

The Hungarian government's answer is simple. It supports the Nato membership of many surrounding countries, including Slovakia and Romania, the countries with the biggest Hungarian minorities, and Slovenia, which, like Hungary, is in fast-track negotiations to join the EU.

In the interim, the government hopes, the example of an economically successful, western-facing Hungary will bring stability to the region.

The technological barriers to membership may be more troublesome. Lieutenant General Nandor Hollosi, deputy chief of defence staff, points out that the Hungarian air force depends on Russian staff to keep airborne its ageing Soviet-built MiG-21 fighters. While the military would like to buy 30 new western aircraft the Ft400bn ($1.7bn) cost is beyond its defence budget.

Instead, spending has concentrated on basic Nato requirements. A new air defence system has been inaugurated and modern controls are being fitted to old equipment. There has also been emphasis on language and other training to bring Hungary's military philosophy into line. Gen Hollosi concedes, however, it will be 10 years before Hungary's armed forces meet Nato standards.

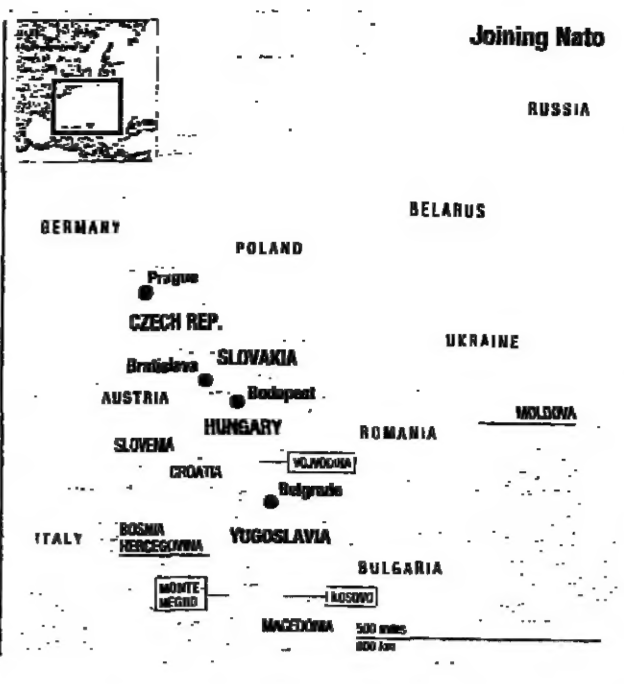
But Nato membership is being portrayed as a huge step towards joining the prosperous European mainstream. As such, the move remains popular, opposed by only 20 per cent of opinion poll respondents.

Military profiles

	Czech Republic	Hungary	Poland
1997 defence budget	$987m	[illegible]	$3.1bn
	58,100 including 35,000 conscripts	43,300 including 27,500 conscripts	240,650 including 141,600 conscripts
	938	835	1,727
	754	840	1,580
	109 inc MiG-21, Su-22	114 inc. MiG-21, MiG-29	325 inc MiG-21, MiG-23, MiG-29, Su-22
			28

Source: IISS The Military Balance 1998/99

Joining Nato



Prague security scramble

By Robert Anderson in Prague

The Czech Republic's preparations to join Nato have been overshadowed by a scramble to screen government personnel and a spy scandal that has raised doubts about the country's ability to keep secrets.

There has been a rush to screen all those who will come into contact with Nato classified information after it became clear that there was a backlog. The national security law, passed late last year, requires everyone to be newly vetted and is far stricter than Nato requires.

The relevance of the screening was called into question in January when the name of a British intelligence official in Prague was leaked to the media, allegedly by disaffected Czech agents in retaliation for his role in the dismissal of the head of the secret service.

Both incidents have been seized on by a media already sceptical about the country's readiness and enthusiasm for Nato.

Unlike the Poles and the Hungarians, the Czechs lack a convincing military tradition. The army did not defend the country from Hitler in 1939 or the Russians in 1968. Although all parties, except the Communists, support Nato, opinion polls show only about 50 per cent backing for membership, with 30 per cent opposed.

Nevertheless, western military experts are upbeat about the country's preparations. "They have made enormous progress, a quantum leap," said a US government official.

Communications, intelligence services and air defence have been linked with Nato and officers have been put on English language courses.

Practical co-operation has already started through participation in the Partnership for Peace exercises and by working with the British army in the peacekeeping forces in Bosnia.

"The experience of Bosnia has been crucial in preparing for Nato integration," said Jaromir Novotny, deputy defence minister.

Other changes, such as adopting compatible munitions, will have to wait until 2005 and until resources allow. "We expect to be fully compatible with Nato in 15 years," said Mr Novotny.

More fundamental changes, including establishment of a professional army, are still up for debate. Since 1993 the army has been halved to 60,000, of which just under half are professionals, but a further shift would be expensive.

"The evolution is going this way," said Mr Novotny, "but this economy does not have the resources for a professional army at present and will not in the next 10 years."

The country will initially contribute to Nato about 400 troops for rapid reaction operations, including a chemical protection unit. By 2003 it expects to contribute a mechanised battalion.

But western experts are worried that the armed forces still require substantial investment at a time of economic recession.

The military budget was increased this year to 1.9 per cent of gross domestic product, or Kc37bn ($1bn), and is set to reach 2 per cent next year and thereafter.

However, most of this is eaten up by personnel and housing costs and there is little money for new procurements, particularly as the air force is committed to paying Kc30bn for 72 domestically produced L-159 light attack aircraft in the next four years.

NEWS DIGEST

TAXATION PROPOSALS

Bonn admits error over energy reserves taxes

The German finance ministry yesterday conceded that its forecasts of the effects of plans to tax reserves built up by the country's energy industry had been misleading.

A ministry spokesman said tax changes proposed by Oskar Lafontaine, the finance minister, would cost the industry DM21.3bn (€10.9bn, $12bn) over 10 years. Until now it had been using an estimate of DM10bn, without making it clear this was over four years only.

The new figure is closer to the DM25bn the energy industry says it will have to pay if the tax changes go through in their current form. But industry leaders yesterday said while they were glad that the finance ministry was "coming closer" to their assessment, they remained resolutely opposed to the tax changes.

On Tuesday, the energy industry pulled out of separate talks on a schedule for closing Germany's 19 nuclear power stations until the tax reform issue was resolved. People familiar with the tax reform talks said the government had produced no breakdown or substantiation of the forecast cost of taxing reserves. "The finance ministry appears not to have done its homework," an industry executive said.
Frederick Stüdemann, Berlin

EUROPEAN DEFENCE ALLIANCE

US warns of 'risks and costs'

The US yesterday warned Europe of the "risks and costs" of creating a stronger European defence capacity in terms of the danger of alienating American opinion as well as of higher military spending.

While expressing strong US support for the planned European Security and Defence Identity (ESDI), Strobe Talbott, deputy secretary of state, issued a caution. "If ESDI is misconceived, misunderstood or mishandled, it could create the impression – which could eventually lead to the reality – that a new European-only alliance is being born out of the old, transatlantic one." Some US politicians in Congress seem all too ready to misconstrue ESDI to wash their hands of Europe, according to US officials.

Speaking at a Nato conference organised by the Royal United Services Institute in London, Mr Talbott also expressed concern that the European Union's ambitions to play a defence role should not sideline those European countries outside the EU, such as Norway and Turkey, as well as Poland, Hungary and the Czech Republic, which are due tc join Nato tomorrow. **David Buchan, London**

TRADE DEFICIT WIDENS

Romania GDP shrinks 7.3%

Romania's official recorded economy contracted by 7.3 per cent in 1998, according to official statistics published yesterday. The figure surprised analysts, who had been forecasting a 4 per cent drop in gross domestic product. In 1997 Romanian GDP fell by 6.6 per cent to $35bn.

Romania's continuing difficulties were underlined by the latest trade figures, which show that in 1998 the country ran a trade deficit of $3.52bn, against 1997's trade deficit of $2.85bn. Last year Romanian exports fell by 1.6 per cent year on year and imports rose by 4.8 per cent year on year.

The country's deteriorating economic performance has brought unemployment. The national jobless rate rose from 11.1 per cent in January to 11.8 per cent in February. Most of the job losses result from government efforts to restructure the state-owned sector.

February's inflation rate was 2.9 per cent. The finance ministry predicted that inflation would reach 32 per cent by Christmas. In 1998 inflation was 40 per cent.

Romania is in talks with the International Monetary Fund and the World Bank about new loans.
Joe Cook, Bucharest

PETROLEUM FUND

Norway invites bids

Norway's central bank yesterday invited external managers to submit bids for up to five mandates, with each mandate to manage at least $200m of the country's NKr171.8bn ($22bn) petroleum fund, the investment vehicle for its oil revenue surplus. The move is the last of four planned rounds of bidding for the management of the fund's assets, which were opened up for placements in international equities last year. Before that, the fund only invested in interest-bearing instruments managed by the central bank and one external bond manager.

The bank plans to award the mandates by the fourth quarter of 1999. The results of the previous offer of mandates, for the active management of bonds representing less than 10 per cent of the NKr103bn bond portfolio, will be announced towards the middle of this year.
Valeria Sköld, Oslo

ISLAND TENSIONS ESTRADA BACKS AGREEMENT ALLOWING JOINT MILITARY EXERCISES AFTER CHINA BUILDS ON REEF

Manila urges US role in Spratly dispute

By Peter Montagnon and Tony Tassell in Manila

Joseph Estrada, Philippine president, called yesterday for closer ties with the US amid growing tensions in the South China Sea over the disputed Spratly Islands.

Mr Estrada said the need for Washington to hold the balance of power in the region had been reinforced since the "sudden" construction last year of a large structure by China in Mischief Reef in the Spratlys.

His call came as Manila identified newly built structures in a previously undeveloped part of the Spratlys, which has been claimed by eight countries. Mr Estrada is also battling to push a controversial agreement through the Philippine Senate which would allow large-scale joint exercises with the US on Philippine soil.

Although described by one analyst as merely a "collective visa arrangement", the accord signed in February last year is highly controversial in the Philippines, where memories linger over the presence of US bases until their 1991 eviction – enthusiastically supported by Mr Estrada. "Then I was fighting for national sovereignty. Now I'm fighting for national security," he said in an interview with the Financial Times.

"I am afraid of what China is doing there in the Spratly Islands in Mischief Reef," he said. "It is an encroachment on our territory. Under the United Nations law, the exclusive economic zone of a country is 200 nautical miles from the shoreline. It [Mischief Reef] is only 185 nautical miles from our shoreline while the nearest Chinese island is more than 600 miles away."

Orlando Mercado, Philippine defence secretary, said it was still not clear which of the claimants was behind the new structure at Lizzie Webber Reef but added it was further indication of a "construction boom" in the Spratlys.

The Philippines is now aiming to step up efforts to resolve the dispute with China over the Mischief Reef site, according to Domingo Siazon, the veteran Philippine foreign affairs secretary. He said the country would try to raise the issue at an Asia-Europe meeting later this month in Berlin. The move, however, has attracted fierce opposition from China, which has resisted any multilateral discussion of the Spratlys issue.

Mr Siazon said Philippine and Chinese officials would also meet later this month as part of a "confidence-building exercise" between the countries. He said the Philippines would continue to seek joint use of the Mischief Reef area with China as a way of resolving the dispute while putting the issue of ownership to one side.

Assassin kills Deloitte man in Thailand

By Ted Bardacke in Bangkok and Jim Kelly in London

A senior partner working in the Thai office of accountants Deloitte Touche Tohmatsu was shot dead yesterday in an apparent professional assassination.

Michael I. Wansley, 58, a partner with the firm in Australia based in Melbourne, was sitting in a van in central Nakorn Sawan province when he was shot between six and eight times by a gunman riding pillion on a motorcycle, a common tactic of hired killers in Thailand. The other three people in the van, all Thais, were unhurt, police said. He was travelling to visit a sugar company whose court-supervised debt restructuring he was appointed to oversee.

Mr Wansley is the first foreign executive to be murdered since the Asian economic crisis began in Thailand, where violent settlements to business disputes are common. The killing comes as anti-foreign sentiment, particularly in relationship to bankruptcy and insolvency, is heating up in the country ahead of a crucial vote tomorrow in the Senate on a new bankruptcy bill that would give creditors more power to seize Thai companies.

"At the moment it's too early to come to a conclusion [about the motive for the shooting]. But we will look closely to see if there was a business conflict. It's possible some people felt threatened by the restructuring," a regional police spokesman told Reuters.

News of the killing threw Bangkok's foreign consulting community, recently bolstered by the arrival of scores of restructuring experts and forensic accountants, into confusion. The firm's partners are assembling in Bangkok to discuss the situation.

Mr Wansley was assigned by creditor banks to plan the restructuring of three related sugar mill companies owned by the Siriviriyakul family. They have a combined debt of about $450m which is in arrears.

In a January interview, Mr Wansley said the likely option for the mills was to find a new investor to pump in capital – Australian sugar refiners, among others, have been looking at acquisitions in Thailand – a move which he recognised would lead to existing shareholders seeing their holdings reduced considerably. A final restructuring plan was due to be presented to the court in mid April.

In recent days senior members of Thailand's political establishment have made violent comments about foreigners and their attempts to acquire Thai companies via strengthened bankruptcy laws.

NEWS DIGEST

PARLIAMENTARY APPROVAL

Path cleared for Thai privatisation programme

Thailand's parliament yesterday gave final approval to a bill to make it easier for the government to privatise a host of state-owned companies. The bill was the third of 11 significant new economic laws the government has been able to push through the country's ponderous parliamentary process.

Final approval was given by the elected lower house to an amended version of the law that had been passed by the appointed upper house after being initiated by the lower house.

The privatisation bill allows the government to transform state enterprises controlled directly by government ministries into limited-liability companies, dividing their capital value into shares. These shares, or a portion of them, can then be sold to private investors.

Changes made by the Senate include taking the privatisation process out of the hands of the finance ministry and putting it under the control of the prime minister, and stipulating that representatives of both the supervising ministries and state enterprise workers sit on the committees that will design the privatisation of each individual state enterprise. **Ted Bardacke, Bangkok**

STOCK INDICES

IFC readmits Malaysia

The International Finance Corporation, a unit of the World Bank, has readmitted Malaysia into its indices following the relaxation of capital controls last month. Analysts expect the move to make Malaysian stocks more attractive to foreign investors.

Malaysia was removed from the IFC and other internationally followed indices after it imposed capital controls last September to curb the flow of speculative funds, which were blamed for fluctuations in the stock and currency markets.

The Malaysian central bank says there are signs the country would be reinstated into the Morgan Stanley Capital International family of indices soon. Analysts expect this to happen within the next few months. In February Malaysia lifted a one-year moratorium on the repatriation of funds invested in shares, replacing it with an exit tax in a bid to woo back investors. **T. J. Tan, Kuala Lumpur**

INTERNET IN CHINA

Gates offers cheap access

Bill Gates, chairman of Microsoft, the world's biggest software company, yesterday unveiled a new software operating system that will allow Chinese access to the internet through their televisions. The main selling point of the Venus system was that the software needed for television access to the internet can be loaded into a single box, which costs considerably less than a personal computer. A Microsoft spokesman estimated the cost of the boxes as low as RMB1,500 ($181), against RMB10,000 for a typical personal computer.

The boxes could accommodate a video compact disc player, a low-end personal computer and a web browser, executives said. Microsoft's software product for the Chinese market are expected to be ready for release at the end of the year.

Companies with plans to roll out Venus devices included Taiwan's Acer, Philips Consumer Electronics of the Netherlands, and China's Legend Holdings and Stone Electronic Technology and Haier Group, Microsoft said.

"Our goal is very aggressive goal, and that is to introduce millions and millions of people to computers and to the internet," Mr Gates said at a ceremony in the southern city of Shenzhen. **James Kynge, Beijing**

INDONESIAN VIOLENCE

Police fire on Ambon rioters

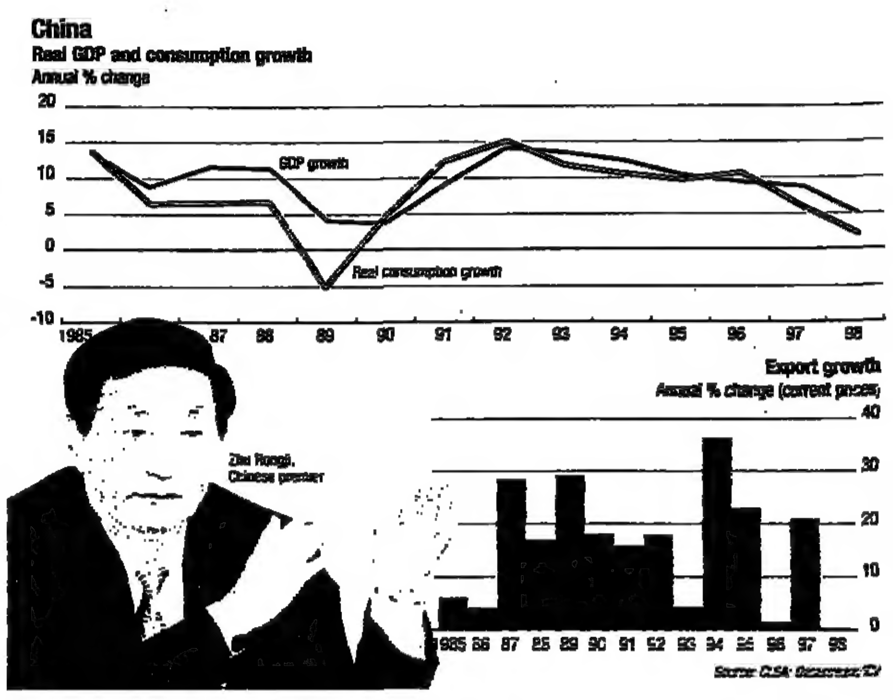
Indonesian troops fired on tens of thousands of rioters in Ambon city yesterday, killing two and injuring at least 50. Fighting between thousands of Christians and Moslems armed with Molotov cocktails, machetes and spears broke out in the morning and went on for most of the day in the city, 2,300km east of Jakarta.

Elsewhere in the Indonesian archipelago Moslem protesters again marched in protest at the military's failure to stem the violence in the eastern island. In Bandung, 140km south-east of Jakarta, 1,000 demonstrators called for a holy war and the resignation of armed forces chief General Wiranto.

The latest violence came as the World Bank warned in a report that political uncertainty could delay already fragile prospects for an economic recovery. **Reuters, Jakarta**

Currency tremors hit 'island of stability'

China is under mounting pressure to devalue, write **James Harding** and **James Kynge**



Pressures are mounting for a devaluation of the renminbi, China's currency.

The economy, praised by Robert Rubin, the US Treasury secretary, last year as "an island of stability", is looking less and less stable and the fate of the currency has for the first time been explicitly linked by a senior official to overall economic performance.

The no-devaluation pledge, which has gradually been watered down from the immutable commitment in the interests of Asian recovery made nearly two years ago, is now being expressed in terms of China's chief domestic priorities: social stability and economic growth.

The outlook for the economy is bleak. Economists, both Chinese and foreign, believe that China's growth last year was probably several percentage points lower than the 7.8 per cent officially claimed.

Exports rose by just 0.5 per cent in 1998, down from a 20.9 per cent climb in 1997. In the past few months, exports have posted sharp year-on-year declines and January's trade surplus of $1.5bn was far below the $4bn recorded in the same month a year ago.

Foreign direct investment last year was put at $45.6bn but officials expect inflows to fall off sharply this year, perhaps to as little as $15bn.

Two-thirds of all China's important manufactured goods are in oversupply, price deflation has run into its 17th month and consumer demand is described by the prime minister, Zhu Rongji, as "feeble" despite repeated interest rate cuts over the past two years.

Loss-making state enterprises are slipping deeper into debt and are generating millions of redundant workers. According to respected Chinese economists, there are more than 100m unemployed in the rural hinterland and perhaps another tens of millions out of work in the cities.

But worse than all this, none of the strategies China is using to reinvigorate the economy appears to hold out promise of sustainable success.

Efforts to expand consumer spending, which accounts for around 50 per cent of gross domestic product, have been undermined by the pursuit of another top policy – the reform of state industries. Such reforms slash the housing, medical care and education subsidies that state sector employees have enjoyed for decades. Redundancies are also common.

Under such circumstances, many people are reluctant to spend, even if interest rates are low, economists said.

"It will be very difficult to stimulate consumer demand this year," said Wang Zhenzhong, a senior economist at the Chinese Academy of Social Sciences.

Mr Zhu indicated in a speech to the National People's Congress (parliament) last week that such enterprise reforms would not be postponed. He said lending to industries troubled by oversupply should be stopped. Barring a few exceptions, no new industrial development projects should be approved in 1999.

The other policy used to stimulate growth, a fiscal package directed mainly at infrastructure spending, is also compromised.

For one thing, the RMB100bn ($12.1bn) infrastructure bond issue launched last year appears too modest – when compared with RMB3,354bn in total industrial output last year – to provide more than a transient fillip to a few industries.

In addition, China's ability to issue more infrastructure bonds this year and beyond is limited by a high level of national debt service charges. Last year, 60 per cent of money raised through sale of Treasury bonds went to cover costs of existing debt, official figures show.

Even if China does decide to issue another tranche of infrastructure bonds, officials said this cannot be relied upon as a long-term policy. Much of the RMB150bn budget deficit in 1999, up 57 per cent from last year, is expected to be channelled towards welfare for laid-off workers, pay rises for public servants and debt service coverage, rather than for infrastructure spending.

None of these structural inadequacies, however, signals that Beijing is about to devalue, only that as the year wears on the temptation to do so may intensify.

"As a last resort, the government could consider devaluation of the renminbi," said a senior official, who declined to be identified. "But this would be dependent on the performance of the national economy and on the situation with social stability."

Rising crime, street demonstrations and riots in parts of China already suggest that economic hardship is biting. If concerns over social instability grow, so too will pressure on the exchange rate.

The main gain from devaluing would be the possibility improved exports. China would also become cheaper for foreign investors, some of whom are currently withholding investments because they believe Beijing may devalue.

Devaluation would also relax the pressures on core sectors of industry, such as steel and shipbuilding, which have lost not only overseas sales but also domestic business to Japanese and Korean rivals. At the same time, a weaker currency would reduce the incentives that drive two of the most common illegal economic activities: smuggling in cheap foreign goods and leaking out billions of dollars in hard currency.

But the disadvantages could also be considerable.

A devaluation could knock the Hong Kong dollar off its peg against the US dollar, precipitating a fall in asset and stock values in the former British colony. It would increase the costs of servicing China's foreign debts, applying more pressure to some Chinese companies with domestic currency revenues and sizable foreign borrowings.

It could also trigger another round of currency depreciations in the Asian region, thereby negating any trade competitiveness benefit that may have been won.

China increases brokers' liquidity

By James Harding in Beijing

China will allow securities brokerages access to funds from the interbank market for the first time in a move to boost liquidity in the stock markets.

The plans to open a new source of funding are intended to answer the concerns of stockbrokers after the introduction of China's Securities Law cuts off access to funds held in client accounts.

Zhou Zhengqing, chairman of the China Securities Regulatory Commission (CSRC), was quoted yesterday in the Shanghai Securities News as saying that the decision to open the interbank market to securities houses was intended to enable "brokerages to raise funds through normal channels".

The Securities Law, which will take effect from July 1, requires stock brokerages to place client funds in special accounts, cutting off one of the funding sources that financed brokerages trading on their own account.

The measure in the Securities Law is intended to protect individual investors' funds, but the securities industry has warned that it threatens to drain China's markets of liquidity and put further downward pressure on domestic Chinese share prices.

Securities houses in Shanghai welcomed the move to grant them access to the interbank market, which was accompanied by a commitment to prolong interbank market opening hours to cover brokerage demand.

Yan Yunlong, general manager of the trading department of China Guotai Securities, one of the country's largest brokerage houses, said: "The opening of the interbank market will greatly help brokerages to obtain the funds necessary for their operations."

Separately, several former officials at Guangdong International Trust and Investment Corporation (Gitic), the indebted fund-raising arm of the Guangdong provincial government that filed for bankruptcy earlier this year, are being investigated for corruption.

Wang Qishan, the executive vice-governor of Guangdong, was quoted in a financial magazine as saying that "some high-level managers are under legal investigation". They were not identified.

Hong Kong sees some benefits in deflation

By Rahul Jacobs in Hong Kong

Walk through the shopping malls in Hong Kong's business district and you meet a blizzard of signs announcing "Final Sale: Up to 80% off". Even so, there are no buyers. One afternoon, the action was so lacking in one store that the lone saleswoman might have been mistaken for a shop dummy.

The same symptoms can be seen on the real estate market. Renu Budhrani, director of the residential department with the property consultancy Chesterton Petty, reports that multinationals in the city are asking for, and getting, 20-30 per cent rent cuts.

"Companies across the board have cut budgets. Despite that, their staff are getting more for less. Instead of downgrading, they are upgrading," she says. Ms Budhrani recently showed clients a 1,900 sq ft apartment with "unobstructed sea views" renting for HK$80,000 (US$10,300) per month a year ago. Today, it fetches some HK$60,000.

A deflating property bubble, the resulting collapse in domestic demand and weak import prices have put Hong Kong on course for deflation of minus 2 per cent this year. Consumer prices declined 1.1 per cent in January, the government announced last month.

In an attempt to boost domestic demand, it recently said that it would issue a 10 per cent rebate to individuals and companies on taxes they had paid in 1997-98.

But a bout of deflation is not all bad news for Hong Kong. Its fixed exchange rate means that prices need to adjust to keep Hong Kong competitive. That would be welcome at a time when its high costs have seemed even more conspicuous because the currencies of many other Asian countries have depreciated significantly.

"This is a blessing in disguise," says Rafael Hui, Hong Kong's secretary for financial services. It is also a huge departure from Hong Kong's inflationary past. Through the first half of the 1990s, inflation hovered around 9 per cent, making it one of the world's costliest cities and driving its obsession with real estate.

Hong Kong's currency peg to the US dollar meant that interest rates closely followed those of the US even though inflation locally was higher.

"In an era of negative real interest rates, you had to buy property just to keep up," says Martin Tacon, an analyst with CS First Boston. Now, the opposite is happening. High real interest rates and a lack of confidence in the property market have led so many people to put their money into bank deposits that banks are awash with excess liquidity.

The negative wealth effect that followed the bursting of the asset bubble in the latter half of 1997 has come as a shock to retailers, who have faced months of double-digit sales falls.

Clothing and footwear prices plunged 15.5 per cent in January. Companies lose their pricing power in a deflationary environment, but they in turn can cut salaries and rents.

Giordano, a large casual clothes retailer based in Hong Kong, has cut the rental bill for its 53 stores in the city by HK$18m last year and HK$28m this year, and frozen wages.

A glut in office space in Central, the city's prime business district favoured by multinationals, has pushed office rents down by 40-50 per cent from a 1997 peak.

Factor in the allowances now routinely on offer, and rents in Hong Kong's central business district are lower than for equivalent property in Singapore in US dollar terms, Brooke International, the property consultancy, says.

Wages have also been affected by the deflationary spiral, but they are not falling fast enough. Many companies have cut the one-month bonus distributed at the Lunar New Year this month.

Victor Fung, chairman of Prudential Asia, says that in previous downturns, Hong Kong's labour costs adjusted quickly because its many manufacturing workers were paid by the piece. "In this recession, there is more stickiness, because a lot of people work in expensive service-sector jobs."

Still, some local economists argue that wage cuts at Hong Kong's small and medium-sized companies amount to a cut in labour costs of nearly 15 per cent. "There's not just asset deflation. There's also wage deflation, but Hong Kong's wage cuts don't hit the headlines," says Dong Tao, an economist with CS First Boston.

A survey by Watson Wyatt, the consulting firm, found that a quarter of the city's large employers say they have frozen wages in 1999.

That may be good news for Hong Kong in the long term, but as deflation becomes so much a part of the daily drama, it may take longer for the economy to rebound.

Amateur web trading rise worries US

By Louise Kehoe in San Francisco

The growth of "day trading" via brokerage web sites – which is fast becoming a popular hobby among internet users in the US – is raising increased concerns among US regulators and lawmakers.

California's state Senate Finance, Investment and International Trade Committee yesterday became the latest government body to take up the issue with hearings focused on the growth of online trading and concerns about consumer protection.

The California hearings come as the state of New York is investigating E Trade, one of the largest online brokerages, for a series of service disruptions last month. New York has also created a task force to probe a broad range of internet consumer problems.

The National Association of Securities Dealers, which has expressed concerns about whether consumers fully appreciate the risks of rapidly purchasing and selling stocks, was due to testify at the hearings in Sacramento yesterday.

Among the issues worrying regulators and lawmakers is the promotion of day trading as a route to quick profits by some online brokerages.

Web sites that enable users to buy and sell stocks for just a few dollars per trade have spawned the phenomenon of amateur day traders, who typically spend several hours a day online. Many know little about the companies whose stocks they trade, but simply trade on movements in stock prices.

California's Department of Corporations was expected to warn state lawmakers yesterday that some online brokerages are encouraging consumers by offering instructions on how to engage in day trading, without warning about the financial risks.

Last month similar issues were raised by four US Congressmen, who asked the Securities and Exchange Commission to investigate.

"We are concerned about the capacity and other operational problems afflicting online trading systems and the adequacy of investor education and risk disclosures with respect to online trading," the congressmen wrote.

Representatives John Dingell, Ron Klink, Ed Markey and Edolphus Towns said the Senate permanent subcommittee on investigations might hold a hearing on online trading.

Arthur Levitt, chairman of the SEC, has also warned consumers about the risks of online trading.

"Online investors should remember that it is just as easy, if not more so, to lose money through the click of a button as it is to make it," Mr Levitt said in a statement released in January.

The SEC says by the end of this year as many as 10m investors will be using online investment web sites. Trades through online brokerage accounts already make up about a quarter of all retail stock transactions in the US.

On the web today

● Mexico abuzz at prospect of election's unlikely bedfellows ● Chile cuts rates again ● Washington's big spenders ponder financial balancing act once again

http://www.ft.com/americas

REPUBLICAN RACE CANDIDATE TAKES EXPLORATORY STEP IN BATTLE FOR PRESIDENCY BUT NOW MUST FACE A WITHERING SCRUTINY

Dole offers a break with tradition

By Gerard Baker in Washington

In the topsy-turvy world of today's Republican presidential politics, an inverse relationship seems to operate between the amount of campaigning effort put in by candidates and their standing in the opinion polls.

George W. Bush, the governor of Texas, who until last week had cheerfully dodged questions about whether he even planned a presidential attempt, has been out in front for nearly two years and is the firm favourite for the party's nomination for next year's election.

At the other extreme, Lamar Alexander, one-time governor of Tennessee, who formally opened his second shot at the nomination this week, has been in a more or less continuous campaign for the past six years, yet few polls give him more than 6 per cent of the vote.

Elizabeth Dole, who announced yesterday she was joining the thickening ranks of Republican hopefuls by forming a "presidential exploratory committee", fits the pattern neatly.

Two months ago, she began dipping a toe in the electoral waters, yet polls suggest she is already the clear challenger to Mr Bush, well ahead of the other half-dozen candidates.

Behind Mrs Dole's strong showing so far lie two main factors: her name and gender. The wife of Bob Dole, 1996 Republican nominee, her family connections, like those of Mr Bush, give her that elusive advantage in the early stages of a presidential race: name recognition.

Better still, in a Republican party which seems to have gone out of its way in the past few years to alienate female voters, she offers the tantalising prospect of the first woman president in the country's history.

Put another way, her emergence gives Republicans an intriguing opportunity both to follow past form in anointing a member of the high political establishment and at the same time, break dramatically with tradition in picking the ultimate outsider in a male-dominated party.

While that prospect may have served her well in the phony war to date, she will now start to face the scrutiny that has withered many a good candidate before her.

Since she stepped down from the presidency of the American Red Cross in January, she has been product-testing a putative campaign theme in Iowa and New Hampshire, where the first two contests of the primary season will take place next February.

At a supposedly non-political event in Ames, Iowa, last month, she outlined that theme. A large crowd of about 2,000 braved bitter weather to hear her lecture to the state university's centre for women in politics.

Elizabeth Dole stirring Republican hearts AP

It was an appropriate setting. Like Mr Bush, Mrs Dole is trying to marry her instinctive conservatism to an inclusiveness that has been lacking in conservative Republican politics.

In Mr Bush's case, that means saying positive things about ethnic minorities and women. In Mrs Dole's case, it means pointing to her own successful career to demonstrate that the party is not hostile to ambitious and independent women.

She has mastered a public style of campaigning best described as "studied informality". Her folksy southern drawl ("How very kind of you" becomes "How vairy kaand of yew") punctuated by girlish giggles, goes down well with the friendly midwesterners.

Her direct interpersonal manner needs work. In the company of real people she seems a kind of cross between Margaret Thatcher and Al Gore. But the message is clearly conservative – a long, pained yearning for better days past.

"This country, which has come so far, has lost so much," she tells her audience, bemoaning the lack of individual responsibility which she says has produced drug abuse, crime, declining educational standards and a "pornographic culture".

The message is clearly intended to blunt the Democrats' claim that under President Bill Clinton, the country has achieved unparalleled prosperity, and at the same time draw oblique attention to the moral flaws that have been much on display in the White House in the past year or two.

Yet the country has heard it before – from her own husband, in fact, four years ago, caricatured at the time as a "campaign for a better yesterday".

It did not seem to work then, and with the economy in better shape today, drug abuse and crime falling, Mrs Dole will have to work hard to convince Republicans that it will work any better in the year 2000.

Brazil eyes April return to capital markets

By Geoff Dyer in Brasilia

Brazil hopes to return to international capital markets in April once the board of the International Monetary Fund has approved a \$9.2bn tranche of loans to the country, according to Arminio Fraga, the central bank's new president.

Mr Fraga will be in New York today at the start of a week of meetings with international financial institutions, in an attempt to persuade them to extend new credits to the country.

He will also be explaining the details of the new agreement with the IMF signed on Monday, which the government hopes will repair credibility battered during the recent currency crisis.

"We plan to do something after the end of the month, once the next tranche had been disbursed," said Mr Fraga, in an interview yesterday. "We will take a serious look in April."

Although size and timing of any bond issue would depend on market conditions, he said the central bank was looking at a number of ideas including a global bond issue and a dual-currency bond, which would be denominated in Brazilian Reals but which would offer a minimum return in dollars.

The government had ruled out the use of a guarantee from an international institution, such as the World Bank, to launch a sovereign bond issue, he said, but such guarantees could be used to help private sector borrowers return to the market.

Mr Fraga admitted that inflation resulting from the devaluation would create a fiscal benefit equivalent to 0.5 per cent of gross domestic product by reducing the real level of spending. However the recession provoked by the currency crisis would reduce revenues, he said.

The central bank was developing the policy framework for an inflation target which would be announced in three months' time and would use a consumer price index, he said.

Until then the bank would use the growth in the monetary base to guide interest rate policy.

The government won an important victory in Congress early yesterday morning when the lower house voted in favour of the extension and increase of a tax on financial transactions.

The tax, the last part of the R\$28bn (\$14.1bn) in budget cuts which were announced in November, is expected to raise R\$8bn this year.

The lower house, which has to vote again on the tax, was voting yesterday on a number of amendments to the bill, one of which could significantly reduce its impact.

The currency continued to strengthen yesterday as investors reacted positively to the new IMF deal. By mid-afternoon, the Real was trading at R\$1.87 to the dollar, an appreciation of 6 per cent over the last two days.

Emerging markets 'pose hidden risks'

By Alison Maitland in London

Multinational companies lost more than £15bn ($24m) last year by ignoring or underestimating corruption, bureaucracy, organised crime and other non-conventional risks in emerging markets, according to a report to be published this week.

Merchant International Group (MIG), the UK-based risk consultancy that wrote the report, says the losses equate to an average 8 to 10 per cent erosion of companies' expected returns from foreign direct investment.

The figure is based on responses from 7,500 multinational companies based in the UK, continental Europe, Scandinavia and the US. According to the MIG research, 84 per cent of operations initiated in emerging markets in the past three years have not met financial targets. Of these, 26 per cent have failed.

MIG attributes 25 per cent of the £15bn-plus losses to bureaucratic delays and differences in business methods, 25 per cent to bribery and cronyism and 25 per cent to organised crime, extremism or terrorism.

A further 15 per cent is put down to poor selection of business partners and 10 per cent to unfair competition.

Relying on traditional risk analysis from banks and credit rating agencies is no longer enough, the report says. "Companies ignore the less fashionable exotic subjects such as culture, nationalism and religion at their cost."

Many of these "grey area" risks are increasing, says Stuart Poole-Robb, the consultancy's chief executive. The real cost of crime and terrorism was estimated at nearly £1bn last year, a 20 per cent increase on the previous year, as companies spent more protecting their interests or failed to achieve projected revenues.

Organised crime will pose a greater threat as it becomes more sophisticated, the report says.

"With over 4,000 individual groups of all nationalities, losses can be expected to be significant if the corporate eye chooses to ignore this issue."

Other growing problems include business cronyism, particularly prevalent in Asia, and fraud.

"Many company directors don't have a clear idea of what is going on in their overseas markets," says the report.

"A significant number of companies, prior to the eruption of the Asian financial crisis, steadfastly continued to deny to their own headquarters that a crisis existed."

Identifying and evaluating hidden risks facing investments will need to become more sophisticated, it says. "Companies (shareholders) will not be able to afford or countenance the losses recorded here this year."

For a second year, Pakistan heads the MIG league of riskiest countries for UK multinationals. Indonesia rises from third to second place and Russia from fourth to third.

Mexico carries the greatest risks for US multinationals, followed by Russia and China.

Mr Poole-Robb expects significant improvements in the next year in Thailand, Malaysia and the Philippines, but believes Indonesia, Japan and China will take longer to recover.

Eastern Europe, particularly Russia, is faltering and Africa and the Middle East are "very worrying", he says.

In Latin America, he sees Argentina, Brazil and Chile as markets with promise, despite the fallout from the Real's problems.

Costs of trouble abroad, Page 22

Algerian regime's man runs on the reconciliation ticket

Roula Khalaf on the presidential frontrunner who wants to bring peace to a bitterly divided country

Abdelaziz Bouteflika: ready for dialogue with anyone who can help end Algeria's agony

Abdelaziz Bouteflika, leading contender in Algeria's presidential elections, broke his silence yesterday to portray himself as a man seeking to reconcile the army, the Islamists and the secular society.

In his first interview during the campaign, the man seen as the army's candidate in the April 15 elections said that, as president, he would open a dialogue with anyone who could contribute to resolving the Algerian crisis. He did not exclude former representatives of the banned Islamic Salvation Front (FIS), the party which had been poised to win the 1992 elections cancelled by the army.

"Algeria today needs every citizen who believes in peaceful pluralism," he said. "Algeria belongs to all Algerians regardless of their political programme, inclination or ideology as long as they abide by the principles of the constitution and the laws of the republic."

Mr Bouteflika, 62, was foreign minister in the Boumedienne regime of the 1960s and 1970s. He was nominated as candidate for the presidency by the National Liberation Front (FLN), the former ruling party. He has also won the support of another pro-regime party, and that of a small legal Islamist party.

But his candidacy has been highly controversial. Public support from some powerful retired generals fuelled suspicions that his election was being stage-managed. Following loud criticism of Mr Bouteflika in recent weeks and splits in two of the parties backing him, divisions began also to emerge within the army over his candidacy.

Mr Bouteflika insists he is his own man but that he wants the support of institutions such as the military, political parties and civil society in an effort to win the trust of both the Algerian people and the army.

He revealed that in 1994, the army had called on him to assume the presidency, but that he had declined because all his conditions were not met.

For Algeria's rulers, Mr Bouteflika is a safer pair of hands than other candidates and a smooth diplomat who might improve the country's tarnished image abroad.

He made no secret that he shared many of the army's policies. He said the most pressing issue would remain the fight against "terrorism and viole" but without "weakness or excess."

While many in the opposition believe that ending Algeria's crisis requires a gradual return of the army to barracks, Mr Bouteflika sees the military establishment today as playing a key role in efforts in national reconciliation. The army, he said, should be credited for holding the country together, and as "the engine for the promotion of a nascent democratic culture."

His approach is first a dose of realism, manifested by his description of the crisis which the government has tried to understate as a "national catastrophe". He also believes that the regime's restoring of parliament and municipal councils in recent years could not alone return Algeria to peace.

"Society has been so traumatised and torn apart that new institutions alone, however necessary, are not enough to reconcile the country with itself," he said. "For this, trust must be re-established between the people and the new institutions."

How would he try to re-establish this trust? A broader dialogue will certainly not mean rehabilitating the FIS. But it could lead to talks with individual leaders or members who can influence extremist armed groups.

Mr Bouteflika would also introduce measures to promote reconciliation and forgiveness. He praised for example a recent government decree promising to indemnify families of victims of terrorism as well as relatives of people who have disappeared after being taken by security forces.

"The problems are difficult. They are complex. They are tragic. But a national solution exists. It must be found, by the support of some, the contribution of others and the generosity of the entire population." he said.

Restoring confidence in the economy and creating jobs at a time when social pressures are intensifying – and the price of oil and gas on which Algeria depends is in collapse – are an essential part of the solution to Algeria's crisis.

Mr Bouteflika spoke of the need to diversify the economy. He said changes were needed in the banking and financial sectors and to streamline the legal system and the bureaucracy.

To have a chance to work for national reconciliation, Mr Bouteflika has his work cut out in coming weeks. While trying to create a stronger base within the regime, he also has to alter the perception that he is being imposed from the top and win the trust of a large section of the population in a credible election.

NEWS DIGEST

GAZA PROTESTS

Palestinian police shoot dead two teenagers

Palestinian police yesterday shot dead two teenagers in Gaza following widespread protests against a death sentence imposed by a military court on a security agent who was allegedly a member of the opposition Hamas Islamist movement.

The protests in Rafah, close to the Egyptian border, were some of the most spontaneous and vociferous so far against the police forces as well as against Yassir Arafat, president of the Palestinian Authority, who can confirm or commute the death penalty. Three executions by firing squad have been carried out in the past year in Gaza.

According to Palestinian human rights groups, the protests also signalled growing opposition to the power of the dozen or so Palestinian police forces. They said Mr Arafat had used them to play off against each other and keep each of them in check, while at the same time he used them to snuff out any opposition.

The crowds threw bottles and stones at the police, reminiscent of the days of the *Intifada*, or Palestinian uprising against Israel in the late 1980s. During a funeral of one of the teenagers, they shouted: "Arafat, keep your dogs away.". **Judy Dempsey, Jerusalem**

FUNDS PLEDGED

UK backing for Nigeria

Britain yesterday offered cautious support for Nigeria's incoming elected government, promising to provide funds for the restructuring of the military and to sue for the lifting of remaining European Union sanctions, most of which are military-related.

But discussions on the rescheduling of Nigeria's $29bn external debt, two-thirds of which is with the Paris Club, would be unlikely before the civilian government – due to take office before the end of May – had established a track record, Robin Cook, the British foreign secretary, said. He was speaking during his first official visit to Africa and after an hour of talks with Olusegun Obasanjo, the president-elect. Britain suspended military co-operation with Nigeria after elections in 1993 were annulled by the army. **William Wallis, Lagos**

ESPIONAGE CHARGES

Congo pressed to free officials

Britain has demanded the immediate release of four Britons and one American held under house arrest since Sunday in a hotel in Kinshasa, the capital of Congo, formerly Zaire.

One UK Foreign Office official, two ministry of defence officials, one member of the UK ambassador's protection team and a US State Department official on secondment to the British government were detained at a military site in possession of maps, according to the Congo government. "In any country this would be espionage," said Gaetan Kakudji, the interior minister.

Another British diplomat, who was also with the officials, was expelled from the country. The Foreign Office denied the espionage charges and said the officials were on "routine business, reviewing evacuation plans in the event of trouble in Kinshasa". **Mark Turner, Nairobi**

ONLINE SALES RESEARCH STUDY FORECASTS RAPID GROWTH OVER NEXT FIVE YEARS

Digital music market 'will be worth $4bn'

By Alice Rawsthorn in London

Nearly $4bn worth of music will be sold over the internet, or other digital distribution systems, in five years' time, according to a new study by Music Business International (MBI), the research consultancy.

The development of the online market is one of the most important issues facing the global music industry. It threatens to destabilise the balance of power by triggering a steep increase in piracy and enabling both record companies and recording artists to bypass traditional retailers.

Forecast music sales by value via internet
($m)

	1998	99	2004
World total	142.9	346.4	3,905.8

Worldwide market for music
($m)

	1998	99	2004
Retail value	40,034.2	41,032.1	47,538.1

Source: MTI

The online market is still in a fledgling state. MBI's new World Report 1999, compiled from data supplied by Market Tracking International, estimates that nearly $143m-worth of music was sold on the internet last year. Almost all those purchases were conventional compact discs or cassettes bought by mail order from retail web sites such as CD Now and Amazon. The online market was also heavily dominated by the US which accounted for $126m-worth of total internet sales, compared with just over $13m from Europe, the second-largest region.

Internet sales are expected to rise rapidly over the next few years, as computer usage increases and record companies introduce direct digital delivery systems, whereby consumers can download digital versions of recordings directly on to their home computers from web sites. The "big five" multinational music groups – Universal, Sony, Warner, EMI and Bertelsmann – are starting a digital distribution test with IBM in San Diego, California, this summer, and plan to launch similar systems nationally this autumn.

MTI's data suggest that internet sales will more than double in value to $346m this year and total $3.9bn in 2004. The US contribution to the online music market will be worth $2.8bn that year, and Europe's $834m.

The vigorous development of the internet music market will take place against a backdrop of relatively modest growth in total music sales and corporate turmoil across the industry as Universal absorbs the old PolyGram group and EMI continues to be clouded by takeover speculation.

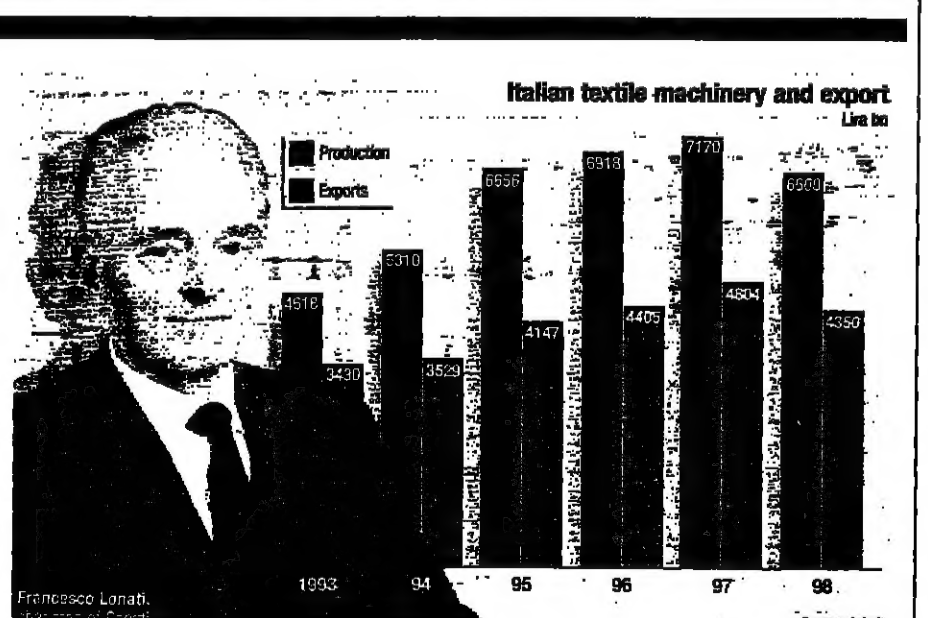
MBI suspects that the depressed Asian region will remain sluggish for several years, as could the once-buoyant Brazil. Other Latin American markets may accelerate and the North American market is expected to remain solid.

As a result, the global music market is expected to grow from $40bn in 1998 to $41bn this year and to $47.5bn in 2004.

MBI World Report 1999 is available for £595 from MTI Ltd, 7 Archway Business Centre, Wedmore Street, London N19 4RU. Tel: 0171 263 1365.

Weakening demand worldwide looms for Italian textile machinery manufacturers

Peter Marsh reports on the fragile export prospects for a world leader in the field



Francesco Lonati, chairman of Lonati

Francesco Lonati, chairman of Lonati, one of Italy's biggest textile machinery companies, does not know whether to laugh or cry.

His family-owned company, the world's biggest maker of sockmaking equipment, is predicting a surge in orders this year for a new type of machine that makes socks in a single step rather than requiring the normal additional procedure of sewing up the toe.

But while Mr Lonati, 88, hopes to sell 2,000 of these systems by the end of the year at $27,000 each, considerably boosting his customers' productivity, the company reckons its overall sales of hosiery production machinery will be down 10 per cent on the L400bn (€206m, $224m) reached last year because of wider problems in the textile industry.

Such similarly mixed emotions are the norm in much of the rest of the Italian textile machine industry, which vies with Japan for being the world's second biggest after Germany. Italy is responsible for an estimated one sixth of the world's $22bn a year output of textile machines.

But while the Italian industry, which exports two thirds of its output and employs 26,000 people in 350 companies mainly in the north of the country, has recovered strongly from the weak worldwide economic conditions in the early 1990s, output last year dipped an estimated 7 per cent from the L7,170bn in 1997.

This year, Ermanno Rondi, president of Acimit, Italy's textile machine trade association, says the industry will "do well just to reach the same output as last year".

In 1998, Asia accounted for nearly a quarter of the exports of Italy's textile machine producers. Europe was responsible for nearly half Italy's exports, and North America 17 per cent.

But weakening demand in the main textile production countries in Asia – which include China, India, Taiwan, Thailand and Indonesia, together estimated to account for about 40 per cent of the world's textile manufacturing capacity – looks likely to push textile machinery exports to this part of the world much lower this year.

And the machinery makers cannot expect much better from other regions which looked promising earlier in the 1990s, but where demand has been hit more recently by broader economic problems affecting the countries in question.

"In Russia and Mexico, everything [in terms of orders] has stopped," says Alberto Sacchi, managing director of HTP, a textile group which makes printing equipment, and exports three quarters of its L30bn annual sales.

But some companies in the industry have managed to refocus their export strategies towards parts of the world whose textile industries are growing.

At MCS, a family-owned maker of dyeing equipment, Gianni Pilenga, a senior manager, expects sales this year at the company to be slightly higher than last year's L60bn, mainly on the back of good prospects in European countries such as Spain and France.

Mr Pilenga, whose company exports two thirds of its production, says MCS has been quick to spot opportunities for sales in small markets around the world. "We have sent our salesmen to a number of places like Hungary, Colombia and Guatemala and they have come back with good orders," he says.

Incas, a maker of specialist monitoring equipment for textile machines, expects this year to expand its 1998 sales of L20bn by a fifth, helped by stronger export sales – which last year accounted for 70 per cent of turnover. Incas's equipment uses computers to calculate the performance of individual machines in a textile factory, so helping to boost productivity.

Protti, a family owned maker of knitting machinery, expects to keep its sales this year at about L100bn, roughly similar to last year, but suffer a fall in profits as a result of the weaker economic climate, according to Luca Protti, managing director.

The company last year sold 60 per cent of its production outside Italy – with 15 per cent going to the US, awhere it started exporting as recently as 1991. In recent years, Protti has increased its development spending to make its knitting machines capable of turning out more intricate designs of fabric, and work faster under electronic control.

"We have a development team of 35 people, of whom 12 are software specialists, and in five years' time we will probably expand the total to 50-60, of which half will be in software," says Mr Protti. "To survive in an industry where competition is becoming tougher, we have to move faster to improve our machines."

NEWS DIGEST

US-CANADA TALKS

Last-minute bid to settle magazines dispute

US and Canadian officials are due to meet in Washington tomorrow for negotiations aimed at heading off a simmering trade dispute over Canada's policy on foreign magazines. After several months of delay, Ottawa is planning to push through parliament this week controversial legislation that would effectively prohibit so-called split-run magazines, which are separate Canadian editions of foreign-owned publications. The US has threatened to respond with sanctions that would raise tariffs on a variety of Canadian imports. A series of meetings over the last month has failed to bridge the gap between the two sides. On Friday the US is expecting a Canadian response to proposals floated in those meetings.

The US is understood to have outlined a package of amendments that would change Canada's investment rules to allow joint ventures between foreign and Canadian publishers, and exempt smaller circulation magazines from the ban on split-run editions. **Edward Alden, Toronto**

WTO RULINGS

India complies on patents laws

India yesterday fell in line with World Trade Organisation rulings by amending its patents legislation to allow exclusive marketing rights for agrochemical and pharmaceutical products, as a prelude to the eventual introduction of product patents. Parliament's lower house ratified an earlier ordnance to the same effect issued in January, meeting a WTO order that India have the amendment set in law before April 19. The amendment, which aroused strong political opposition in India, gives pharmaceutical and agrochemical companies the sole rights to market in India products they have patented.

The amendment meets an earlier commitment to the WTO to accelerate moves towards the introduction of product patents in these sectors, which had enjoyed patent protection only for manufacturing processes – spawning widespread local copying of patented drugs and related products. India is also committed to introduce full product patents by 2005. **Mark Nicholson, New Delhi**

HIGH-TECH

European market to grow 8%

Western Europe's information technology and telecommunications market is expected to grow by 8.2 per cent this year, according to a report by the Frankfurt-based European Information Technology Observatory.

That growth will be fuelled by the Year 2000 computer date problem, the introduction of the euro, mobile communications and "explosive growth" in electronic commerce.

However, growth this year will be lower than in 1998 when the European market grew by 8.9 per cent outpacing the US and the rest of the world. The slower growth mainly reflects falling telecommunications prices as competition increases in newly liberalised continental European countries. In a special section of its annual report published yesterday, the Observatory notes that certain areas of electronic commerce are approaching 'critical mass' in Western Europe with 47 per cent of companies now using the technology, up from only 6 per cent two years ago. **Paul Taylor, London**

COMPETITION POLICY PARTY'S COMMITMENT REMAINS FIRM DESPITE CHANGES AT TOP OF MINISTRY

Onslaught begins on 'abuses of market power'

By Deborah Hargreaves in London

The British government is to reform competition policy in an effort to liberalise markets in the UK and take the politics out of merger decisions.

The government has also launched a study of prices charged by British retailers and how they compare with those overseas. Ministers have long been critical of high consumer prices and competition authorities are investigating pricing by supermarkets, car dealers, the private health care sector and over-the-counter medicines.

"It is wholly unacceptable that consumer goods can still cost twice as much in Britain as in America," said Gordon Brown, Britain's chancellor of the exchequer, in his Budget statement to MPs on Tuesday.

The study of international price comparisons will ensure that competition authorities can identify markets that need their attention. The Labour government came to power with a commitment to reform competition law. The party's manifesto pledges to "adopt a tough "prohibitive" approach to deter anti-competitive practices and abuses of market power".

The commitment has survived the change of leaders at the trade and industry department, which is responsible for competition policy and which has had three heads since the election. Stephen Byers, the current industry secretary, is a strident reformer who wants to get away from the party's interventionist past.

Mr Byers yesterday announced proposals to remove the right of ministers to make the final decisions on company mergers and give it to an independent body. "The uncertainty which is created by having a politician with the final right to intervene is not helpful to the climate we want to establish," he said.

Businesses needed confidence that decisions were not taken for short-term political considerations, Mr Byers said. The merger authorities would be able to refer a small number of cases to ministers if there was a clear public interest issue involved, such as in the defence industry.

The Office of Fair Trading, the UK's competition watchdog, is to receive a 20 per cent boost to its resources and will be told to root out cartels more actively rather than acting on complaints. From March next year, the watchdog will be able to fine companies up to 10 per cent of turnover for breaching competition law. Welcoming the new measures, it said: "For the past 25 years the OFT has had to work with outdated and 'gentlemanly' rules which have hampered any kind of rapid action on cartels or monopoly abuses."

Mortgage and credit lenders will have to provide more details for consumers. The government will implement a European Union directive which means annual mortgage rates are calculated in the same way across the EU and UK borrowers will be able to compare rates with France and Germany. City regulators will also publish league tables of costs and charges in savings, insurance and pensions products.

"This government is putting the needs of consumers at the heart of our competitiveness agenda," Mr Byers said. "Knowledgeable consumers stimulate businesses to innovate and so contribute to competitiveness. But equally, we won't allow consumers to be ripped off."

The government asked the energy regulator to look into electricity standing charges which vary by as much as 15 per cent around Britain. Ministers also said there would be a review of water companies and the lack of competition in the market.

US-style state aid to be aimed at small businesses

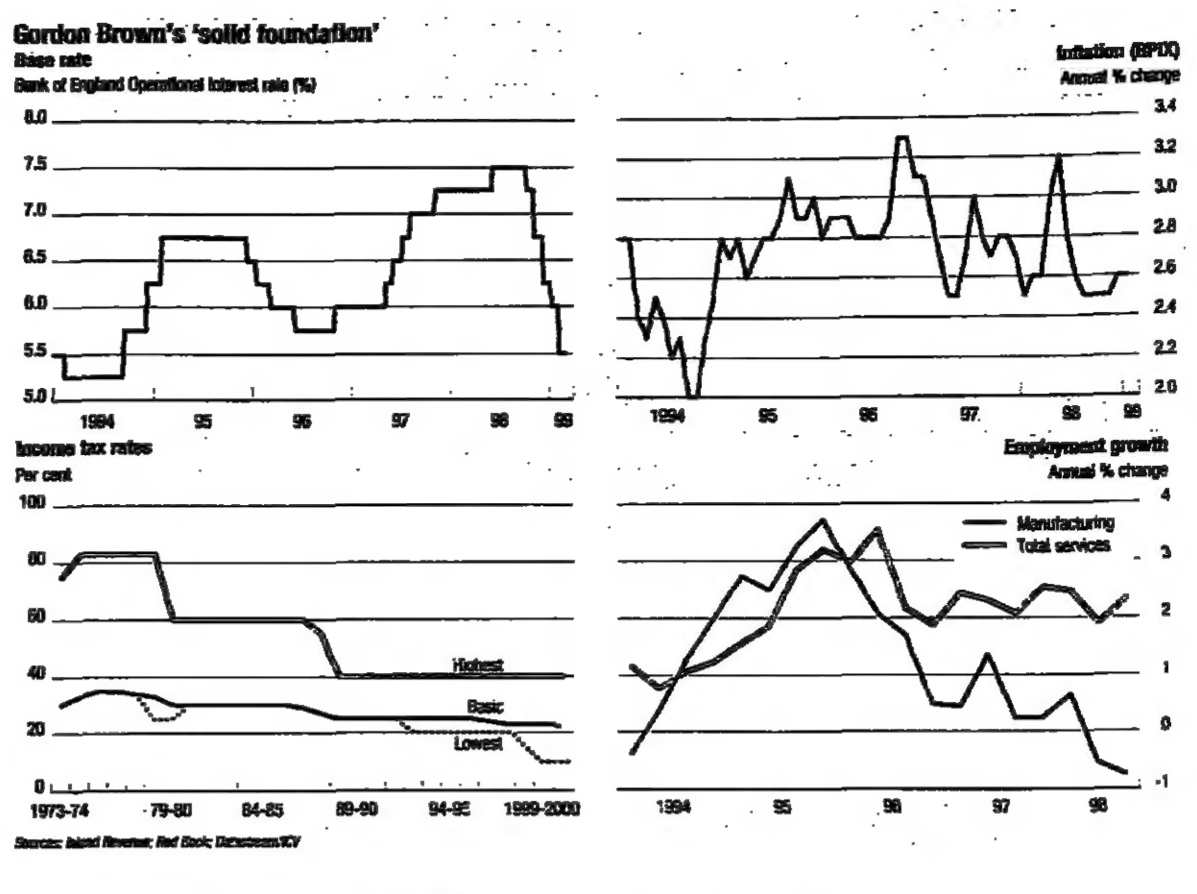
By Susanna Voyle in London

The government yesterday promised £100m ($161m) of new money for the Small Business Service, the body announced in the Budget as a champion for small business in government. The body will be similar to the Small Business Administration in the US.

The government also announced details of a £26m fund to help small manufacturing companies bring their ideas to market, plans to allow more investment in research and development, tax breaks to encourage experienced managers to join higher-risk companies and new measures for corporate venturing.

Organisations representing small businesses broadly welcomed the measures – but said much needed to be done to ensure the details were right. "These things could live or die by the details," said one. Details of the announcements, foreshadowed in Tuesday's Budget, are:

- The new *Small Business Service* will have £100m to spend over three years. It will offer an automated payroll system for all new small and medium sized enterprises from April 2000; support the Inland Revenue in providing business support; give advice on Customs and Excise; and enable internet filing of tax returns.
- The £26m for manufacturing companies – to be provided over three years – will be part of the Smart scheme which helps firms research, develop and acquire technologies. From next month the scheme will be expanded to provide special assistance for the first time to the smallest "micro" companies and individual investors.
- Proposals to encourage more investment in research and development are a new volume-based tax incentive for smaller business spending and new rules on the treatment of intellectual property, simplifying the existing structure.
- A new Enterprise Management Incentive Scheme, to be introduced next year, will help small companies recruit and retain key staff by giving targetted tax relief for share options. The scheme will be aimed specifically at higher-risk trading companies with gross assets of £15m or less. Up to six key employees will be able to participate.
- New corporate venturing measures will encourage existing larger companies to invest in and become involved with small higher risk companies.



Chancellor changes his tune for different audiences

The Budget neither expands nor contracts the economy, and will have little effect on interest rates, writes **Robert Chote**

Was Tuesday's Budget expansionary in its impact in the economy or contractionary? For Gordon Brown, the chancellor of the Exchequer, the answer seems to depend on who is asking the question.

In his statement to the House of Commons, the chancellor clearly implied that the net effect of the 61 Budget measures would be to spur activity. He said they would "boost purchasing power over the next three years by £6bn ($9.66bn) at exactly the right time for the economy".

Mr Brown noted that public investment was rising at the same time that the Bank of England, the UK central bank, was cutting interest rates.

"Britain's fiscal and monetary policies – often at odds in previous economic cycles – are now working together to promote growth with low inflation," he said.

Financial market participants took the chancellor at his word, promptly scaling back their expectations of interest rate cuts over the coming months by about an eighth of a percentage point.

They assumed that if the chancellor was boosting economic activity with tax cuts and higher public spending, the Bank would have less scope to cut rates. But by yesterday morning, Mr Brown was whistling a different tune. He dismissed City talk of an expansionary Budget and said that fiscal policy was tighter than at the time of his pre-Budget report last November.

"That is something the Bank of England will clearly want to look at with interest," Mr Brown added.

It is understandable that Mr Brown should wish his fellow politicians to see the Budget as an expansionary giveaway and the financial markets to see it as a net tightening, leaving the way open for further interest rate cuts. But which is true?

At first glance, the Budget looks expansionary. The net impact of the tax cuts and public spending increases announced on Tuesday is a boost to the economy of £1bn next year, £1.4bn in 2000-01 and £3.5bn in the likely election year of 2001-02. Hence Mr Brown's reference to the £6bn boost to purchasing power.

But this ignores the impact of tax increases announced in last year's Budget or earlier that have yet to take effect. These rise from a net £3.7bn next year to £7.7bn in 2001-01. The biggest contributors are real increases in fuel duty and changes to the corporation tax regime.

Putting Tuesday's measures together with the pre-announced changes, there will be a net tightening of £2.6bn next year, £3.6bn in 2000-01 and £4.1bn in 2001-02. These net tax increases outweigh the expected growth in the economy, so the current tax burden will rise as a share of national income from 39.2 per cent this year to 39.7 per cent in 2003-04.

But looking at cash figures for tax revenue and public spending does not necessarily give a fair picture of the impact of the government's fiscal policy, because both will be affected by the state of the economy.

The boring truth is that this Budget is neither an expansionary giveaway nor a punitive tightening

The Organisation for Economic Co-operation and Development, among others, measures the stance of fiscal policy by looking at the change from one year to the next in government borrowing, excluding the impact of the economic cycle.

On this definition, fiscal policy has tightened by a relatively sharp 1 per cent of national income into the current financial year. It will then tighten fractionally more over the following two years before loosening gradually from 2001-02 onwards.

The tightening into next year is fractionally greater than that expected in November's pre-Budget report.

Tax revenue looks weaker than expected in November, but this is more than offset by lower debt interest payments (because of lower inflation and interest rates) and subdued social security spending.

But in none of the next five years is fiscal policy expected to tighten or loosen by more than half a per cent of national income. And in no year has the estimated change in the fiscal policy stance been revised by more than a fifth of a percentage point of national income since November's pre-Budget report.

So the boring truth is that this budget is neither an expansionary giveaway nor a punitive tightening.

It is broadly neutral, suggesting there should be little impact on interest rates either way.

Minister attacks prices comparison campaign

By David Wighton, Political Correspondent

The campaign on consumer prices launched yesterday by Stephen Byers, chief industry minister, was privately attacked by a fellow minister as "seriously misguided".

The minister told the Financial Times that there were problems in some markets – such as car retailing – but there was "no evidence that there is widespread lack of competition in the UK which is leading to excessive prices".

He said international comparisons were extremely "hazardous" but most statistics suggested UK prices were relatively low compared with other European countries. "The US has lower prices but that is a rather special case and compared with similar countries Britain comes out pretty well," he said.

A report from the European Commission last year showed UK prices were the fifth-lowest of the 15 member countries. They were 12 per cent below the EU average and about 20 per cent less than France and Germany. Only Spain, Portugal, Greece and Luxembourg were lower.

Provisional results from a 1996 study by Eurostat, the EU statistics office, showed UK prices were lowest for fish, clothing, footwear, fuel, power, furniture, household textiles, recreational equipment, books, newspapers and magazines.

The findings are expected to be reinforced in a study by the Organisation for Economic Co-operation and Development, to be published next month. This will show that a representative basket of food costing £100 ($161) in the UK would cost £128 in France, £122 in Germany but £91 in Portugal.

The gap between prices in the UK and France and Germany is expected to have narrowed since 1996 but the OECD will say this is largely due to the rise in sterling.

UK retailers, who believe they have been unfairly targeted by the government, will seize on the study. They say that where UK prices are higher, it usually reflects higher costs rather than lack of competition.

The British Retail Consortium yesterday criticised the chancellor of the exchequer's comments that consumer goods in the UK were twice the price of those in the US. It said that Gordon Brown took "no account of such factors such as VAT [value added tax] at 17.5 per cent compared to the US goods tax of about 5 per cent, higher excise duties, higher fuel taxes resulting in higher transport costs and much higher property costs faced by UK retailers".

John Clare, chief executive of Dixons, the electrical goods retailer, welcomed Mr Byers' review. But he added: "It is important that they should research not just prices paid by consumers but also the factors that contribute to comparative prices in different markets such as retail rents and rates, petrol and other distribution costs, VAT and other purchase taxes and duties and labour costs. Such a study should also examine the prices charged by manufacturers to retailers."

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'Tsar' will lead offensive against tobacco smuggling

By Christopher Adams, Economics Staff

The government is to appoint a "smuggling tsar" to lead an offensive against illegal cross-border tobacco trading. Gordon Brown, chancellor of the exchequer, said yesterday greater resources would be committed to catch the smugglers and recover lost tax revenue.

An investigation by Customs & Excise has revealed the government is losing much more than it thought to tobacco smuggling gangs.

The amount lost in tobacco duty has risen to £1.5bn ($2.4bn) a year, a figure the tobacco industry believes underestimates the scale of the problem.

Criminals seek to exploit big differences in the price of cigarettes sold in Britain compared with elsewhere. Cigarettes are smuggled into the UK in freight containers, often from eastern Europe.

Most of the activity is in hand-rolled tobacco, which comes in smaller shipments from Belgium, brought over by cross-Channel operators paying lower levels of excise duty outside the UK.

Mr Brown said smuggled tobacco and cigarettes accounted for about 10 per cent of the UK market.

Tobacco taxes, which raise more than £8bn a year in the UK, were increased by 5 percentage points above the rate of inflation in this week's Budget.

"I'm not going to allow a policy we've formulated for good health reasons to be undermined by organised crime," Mr Brown said. "We'll put resources into the detection and prevention as well as punishment of this crime."

Squatters price their names in cyber sale

There is money to be made registering internet domain names in the hope of selling them on. **Christopher Price** reports

Globalvision.com, a small British multimedia company, paid $2m for the internet domain names Britain.com, London.com and England.com.

They were bought from Mail.com, a US internet company that has acquired the rights to thousands of domain names, and the price was a UK record.

The previous record is believed to have been £40,000, paid by a UK airline for a generic flying name.

The $2m price tag reflects the rising popularity of the internet. But it also shows the profits that can be made by "cybersquatters", who register domain names in the hope of selling them on.

Registration of any name ending in .com costs $117 for two years in the US. In Britain, co.uk names cost £80 for the same period.

But recent legal cases have curtailed sales of brand and company names. The British courts last year ordered two London men to return the names of brands and companies to their owners after registering names such as burgerking.com and virgin.org.

Similar judgments have been made in the US. But this has sent cyber entrepreneurs in pursuit of another domain area: celebrities. Dozens of companies in the US have registered the names of the famous, where the issue of ownership is much more debateable.

For example, Tonyblair.com and Princessdiana.com have been registered by a US internet company, as have Hollywood celebrities Tomcruise.com and Pamelaanderson.com.

Celebrity-led sites use their names to attract fans and sell them services. Cybersquatters register a name and sell it for a profit as quickly as possible.

Most obvious generic names have been snapped up, as a search of the US domain names web site www.nsi.com reveals.

But cybersquatting lives on. Abdul Traya, a 16-year-old student from Calgary in Canada, has registered appleimac.com, incurring the wrath of Apple, the US computer group that makes the successful iMac computer.

Apple has hinted at legal action if the student does not give up the name. But he says he intends to use the site to generate traffic for his internet interests, including a web-hosting company.

Globalvision plans to develop its three acquisitions as gateways – or "portals" – to the internet for visitors looking for what it describes as "the best of British".

The company hopes to persuade leading UK businesses to advertise on its sites and stimulate visitors to visit their own web sites.

Globalvision plans, with the tourist authorities, to put all registered tourist accommodation in London on the London.com web site.

However, given the internet's poor reputation for making money, Globalvision's sites will have to be popular destinations in their own rights to pay back the $2m investment.

BRITAIN

GSP CONGRESS TO HEAR PROPOSAL FOR REGION TO JOIN LIST OF TARIFF-FREE TERRITORIES

US trade boost urged for Ireland

By John Murray Brown in Belfast

A bill to meet Northern Ireland's claims to special trade relations with the US is likely to go before Congress soon.

The bill promoted by Jim McDermott, a Democratic congressman from Washington state, suggests that Northern Ireland should go on the list of 140 countries and territories that currently enjoy tariff-free status for some 4,000 manufactured products entering the US – the so-called generalised system of preferences.

The bill also proposes the establishment of a Northern Ireland investment fund, guaranteed by the US government, targeted at small businesses. In addition, the legislation calls for the refinancing of the existing International Fund for Ireland, which receives state funds rom the US, Canada and the European Union. An earlier plan was to set up a free trade agreement with Northern Ireland along the lines of the US's trade pact with Gaza – the Palestinian self-rule area. But William Daley, the US commerce secretary, during a trip to Belfast, Northern Ireland's principal city, last year said this was "a very very long shot".

Even the more modest proposal to give Northern Ireland GSP status has received a cool response in Northern Ireland and in the Republic of Ireland. The scheme would cover the six border counties of the Irish Republic worst hit by the impact of sectarian violence.

Paul Gorecki, director of the Northern Ireland Economic Council, a think tank, said such an aid programme was out of step with the region's attempts to wean itself off government subsidies. UK government officials are sceptical it will win official support from the European Commission as it is technically in breach of the single market.

However, Mr McDermott points out that Madeira, part of the European Union, enjoys the same GSP status. He says it would only require a waiver from the World Trade Organisation – and similar concessions were made in the case of funds for Germany in the wake of the fall of the Berlin Wall.

With Northern Ireland party leaders in Washington next week, when they will entertained at the White House reception to mark St Patrick's Day, Mr McDermott is keen to use the renewed public interest in Ireland to re-introduce the bill to Congress.

His office concede it may be months before any such legislation is approved, given the difficulties the Clinton administration has had winning backing for other trade measures. One plan being mooted by Mr McDermott's office is to "piggy-back" the Northern Ireland legislation with an Africa Bill to aid African countries.

ROVER UNIONS SAY QUICK ACTION WILL END UNCERTAINTY IN FACE OF HUNGARY OPTION

Speed urged in BMW aid decision

FT Reporters in London and Budapest

Trade unions at the Rover car company yesterday urged UK ministers to decide quickly on an application for £200m ($322m) in aid for its Longbridge factory after Joachim Milberg, chairman of parent group BMW, confirmed there will be a new generation of models.

But Mr Millberg left open the question of whether successors to the Rover 200 and 400 would be built in England or Hungary.

"The sooner the government confirms sizeable financial support, the sooner the uncertainty that has hovered over Longbridge and the workforce for far too long can be removed," said Tony Woodley, chief motor industry negotiator for the Transport and General Workers Union.

People close to the negotiations believe the government response will be rapid. They suggest it could be delivered in time for a BMW supervisory board meeting on Wednesday. There could be a final verdict shortly afterwards, possibly at the German car maker's annual results conference at the end of the month.

Helmut Panke, BMW industrial relations director, said at the Geneva motor show that there is "a prejudice" in favour of Longbridge. But executives are striving hard to convince UK ministers that investigation of an alternative site for the project in Hungary is not just a paper exercise.

An official in Hungary's economics affairs ministry said BMW had not made a formal approach and would be offered only normal investment incentives.

Hungary had no passenger car industry under Communism but it has become one of the drivers of the country's strong economic growth. Most engines for the Audi division of Volkswagen are made in Hungary and the Opel offshoot of General Motors has a car and engine factory there.

BMW's investigations of Hungarian sites, costs and suppliers is said to have stopped only just short of applying formally for government aid.

● The UK government is to give £2m of aid to Peugeot to help create 900 jobs at its UK base. The company announced the expansion last December.

Nissan and DaimlerChrysler, Page 15

Tony Woodley urged ministers to decide quickly on aid

Accounting body defends reporting rewrite

By Jim Kelly, Accountancy Correspondent

The Accounting Standards Board will today republish its controversial framework for the future of financial reporting and, despite a substantial rewrite, will insist it has stuck to its guns in the face of critical attack.

When the board published its draft statement of principles in 1996 it prompted an unprecedented attack from Ernst & Young, one of the largest accountancy firms in Britain, that academic theorists were using the UK as a "testbed".

Sir David Tweedie, board chairman, yesterday said: "The dog-eared accounting concepts used in the 1960s were simply not up to the task of dealing with the transactions of the late 20th century and had to be replaced."

Despite the rewrite and reaffirmation of traditional principles, the new draft will be seen as a sign that the board is determined to continue with modernisation.

Ron Paterson, technical partner at E&Y and the man who led the attack in 1996, said: "We are glad this thing is finally out – especially as it has taken three years and Sir David says he hasn't changed it. We will be studying it."

E&Y's defence of historical cost accounting and its insistence that the ASB was heading towards implementing more current cost accounting prompted complaints that the board was experimenting with UK business.

"Although that draft attracted more letters of comment than any other document published by the ASB, important aspects of the draft were not well understood – which to some extent obscured the debate," said Sir David.

At the time, in a heated public debate, Sir David scorned E&Y's rebuttal of the draft. Eventually the document was withdrawn to be redrafted. E&Y alleged that the board planned to elevate the importance of the balance sheet over the profit and loss account by making annual accounts a statement of asset valuation rather than historical record.

Bankers turn out to invest in low-interest Monica

By Deborah Hargreaves in London

Monica Lewinsky yesterday cancelled all press interviews to concentrate on a nationwide tour promoting her biography.

"She is quite flu-ey and on antibiotics and it's a tight schedule," her publisher said yesterday. The former White House intern leaves London today on a tour of 15 UK cities to autograph copies of *Monica's Story*.

Ms Lewinsky, who has appeared with red rims round her eyes and snuffling into a handkerchief, was reported to have been unhappy with her reception in the British press. One article, by a female journalist, said she was "vain and shallow" and referred to her "thick ankles".

"I know I should take the high road," she told a radio interviewer in London. "But when a woman writes about another woman and writes such a derogatory article, they should run a full page picture of themselves as well and then sometimes people would understand where they are coming from."

A crowd of nearly 500 including stockbrokers, accountants and traders queued in London's financial district yesterday for an *autographed book*. An investment banker said: "I wanted to see for myself this person who has caused such a monumental fuss that she nearly wrecked the world's number one democracy."

The book has already been discounted in some stores after poor sales. But the bookshop where she appeared yesterday, near the headquarters of the Lloyd's insurance market, said it had sold 479 copies.

Some City workers said they hoped the book with her signature would be a good investment. Jo Anderson, an auditor, said: "I thought it would be worth something later, with that inky signature inside."

NEWS DIGEST

PRIVATISED RAIL COMPANIES

Operators criticised in train derailment report

Privatised railway companies were criticised yesterday in a report on the derailment of a freight train in the London suburbs two years ago. The Health & Safety Executive ordered improvements in the management of railway safety after its investigation revealed a catalogue of failures. Seven wagons of a 19-wagon train were derailed, injuring four people in workshops under a viaduct at Bexley in south-east London.

The primary cause was poor track condition, while one wagon was overloaded and the train was exceeding the speed limit, the investigation found. But "the underlying causes of the accident were failures in management of safety by Railtrack and its contractors", the report said. Training of the driver was inadequate and no reassessment been made by Connex South Central, the train operator and a Vivendi offshoot. **Charles Batchelor, London**

RACIAL DISCRIMINATION

Blair in 'zero tolerance' pledge

There will be "zero tolerance" of racial harassment and discrimination in all public services including the state health service, Tony Blair, the prime minister, told the House of Commons yesterday. His comments came as a government education inspector said many schools were "institutionally racist" and allowed ethnic minority pupils to under-achieve. The claim was made at the launch of a report by the Office for Standards in Education, which says Pakistani, Bangladeshi, black Caribbean and gypsy traveller children are not making adequate progress. Cliff Gould, Ofsted head of secondary school inspection, said English schools were guilty of unwitting "institutional racism" – the term recently used in criticism of London police in a report about the murder of a black student in a London street. The National Association of Head Teachers said "such unfounded allegations make no positive contribution to solving a longstanding and highly complex situation".

FOOD POISONING

E.coli outbreak 'under control'

Health chiefs in north-west England were confident yesterday that they had controlled an outbreak of E.coli food poisoning which affected 38 people. Six people, including four children, were still in hospital. All the patients are believed to have picked up the infection from milk. Dr Peter Tiplady, director of public health with North Cumbria Health Authority, said: "The fact that the number of people being admitted to hospital is falling shows that the prompt action has been effectively controlling the outbreak."

● Genetically modified crops pose unknown risks to wildlife and ecosystems in the British countryside, experts advising the government told MPs today.

Two senior scientists from English Nature said the impact on natural food chains of crops engineered to increase tolerance to weed killers and resistance to insects had not been assessed. Until the risks were known no attempt should be made to plant genetically modified crops commercially, they told the House of Commons science committee.

THE ARTS

CINEMA

Brazilian odyssey

Although **Nigel Andrews** is relieved not the get the Full Schmaltzy along the road

CENTRAL STATION
Walter Salles

PATCH ADAMS
Tom Shadyac

PLEASANTVILLE
Gary Ross

SCHIZOPOLIS
Steven Soderbergh

Can a feelgood movie also make you think? Probably only if it comes from outside Hollywood.

The award-besieged Brazilian film *Central Station* – 1998 Berlin Golden Bear, 1999 Best Actress and Best Foreign Film Oscar nominations – is like an arthouse *Paper Moon* with the sexes reversed. Oldish woman and young boy pal up, go on the road and discover themselves and each other. They and we also discover much of Brazil, from the poverty pockets of Rio – pockets that make up most of this city's garment – to the buzzing, broiling, illimitable heat of the *sertao*.

This film is so good that we can only pray director Walter Salles is not abducted by Hollywood. Other gifted Latins (Luis *The Official Story* Puenzo, Hector *Pixote* Babenco) have fallen into the dream factory's sudsy vats never to resurface. Salles too has a kidnappable ability to combine acute social analysis with easy-access yarnspinning.

Central Station opens in the Babel concourse of the title, where elderly ex-teacher Dora (Fernanda Montenegro) exploits her gift of literacy by writing letters for the poor and promising to post them. (She saves stamp money by stuffing most of them in a drawer.) These missives which vary from formal to fond to all-but-bodice-ripping – "My hot pussy . . . your boiling sweat . . ." – give her an insight into the human heart, but she is a heartless biddy herself. She only *pretends* to care for the young urchin Josue (Vinicius di Oliveira), un-mothered when a truck hits his parent. Promising she will help him, Dora negotiates to sell him for adoption: a euphemism, we are made to understand, for organ banditry.

At the next story development filmgoers used to Tinseltownish sentimentality will sigh a sarcastic "Oh, of course!" She changes her mind and sets off across country with him to find Dad. This *could* be a Hollywood plot: 10 years ago it might have starred Ruth Gordon and Macaulay Culkin. Dora and Josue bond like mad on the road, outwitting creeps, crooks and conmen, and end up finding his family while she is left to re-board the Rio bus and confront – what? Loneliness? Fulfilment? A belated appreciation that the whole *world* is her family?

The film doesn't say and its open ending is a triumph. Instead of getting the Full Schmaltzy – the boy does find his half-brothers but pa is still elusive – we peer into the sun, dust and untidy infinity of the Brazilian outback (superbly photographed by Walter Carvalho), vainly seeking in its Rorschach patterns a simplistic moral to take home. All we take home is the writhing uncertainty of a country's life, glimpsed in pass-by tableaux. The train so crowded that bodies slither in and out through windows like cheese through a grater; the police who casually shoot dead a runaway thief on the street.

Reality deglamorised is also the strength of the main performance. At Berlin, Montenegro won and deserved the Best Actress prize. She looks like Thora Hird gone subtropical. The baggy, wrinkled face, with its spooked but vigilant eyes, can be funny, malicious, poignant or pixilated. There is a wonderful scene where she weeps at the departure of a trucker she has fallen for: Salles films her face through the café window's slatted glass, strip-layering her features like an exploded computer diagram. He does the same figuratively with Brazil itself and its vast, shy social tragedy. Just when you think this film is most softhearted it is most hard-headed and keen of eye.

★

Patch Adams is so soft-hearted that if you performed a cardiac exploration all you would find is soup. This sentimental comedy is based on the true story of alternative medicine guru Hunter Adams, who founded a clinic to promote his creed that patients can/should be cured by love and humour. Tom *The Nutty Professor* Shadyac directs and Robin Williams plays – well, we know what he plays, don't we? It's always the same. Humanity's redeeming angel, part man, part child, part Reader's Digest version of Oliver Sacks.

If I make the film sound bad, let me assure you it is worse. Real cancer victims play the children guffawing at Williams's ward-room jokes and horseplay. The hostile senior doctor is lit from below so that he resembles Satan. (In reaction shots at the same desk Williams is warmly side-illuminated – who fitted up the hospital's lighting, Houdini?) And we are asked to weep tears of laughter when Williams turns an enema bulb into a red nose. Soon he is going about the hospital known as an "Enema of the people" or "Public enema number one". Only joking. But mentally rewriting this film is better than just sitting and enduring it.

★

Pleasantville – pleasant but a touch predictable – is the week's third feelgood project. Writer-director Gary Ross has an enchanting idea. Whisk a 1990s brother and sister back to the 1950s, or a TV distillation thereof, and have them convert that repressed, hygienic, black-and-white world to colour, dab by dab, liberal idea by liberal idea.

The siblings (Reese Witherspoon, Tobey Maguire) are teleported, courtesy of a magical TV repairman, into an long-running sitcom set in the title town. So they must battle canned laughter and bits of pre-ordained plot as well as women with bobbed hair, balloon skirts and dimpling smiles and men who say, "Honey, I'm home" and expect dinner to be in the oven.

But isn't *Pleasantville* in danger from the Déjà Vu Police? We have been here before, surely, and I don't mean in the 1950s. Films like *The Brady Bunch*, *The Truman Show* and *The Purple Rose of Cairo* have all riffed away at the notion of an Edenic America bolstered by media illusionism. How many times can you laugh at a picket fence or Pepsodent smile, or unpick the closely-plaited weave of reality and pop-culture self-persuasion in American "innocence"?

Ross, who screenwrote *Big* and *Dave*, deploys clever techniques. Colour leaks detail – here a clock, there a flower – into the monochrome (though even this goes back half a century to Powell's *A Matter Of Life And Death*). And there are jokes. In a town too idyllic for arson, firemen accustomed to pet-rescue respond only to calls of "Cat!"

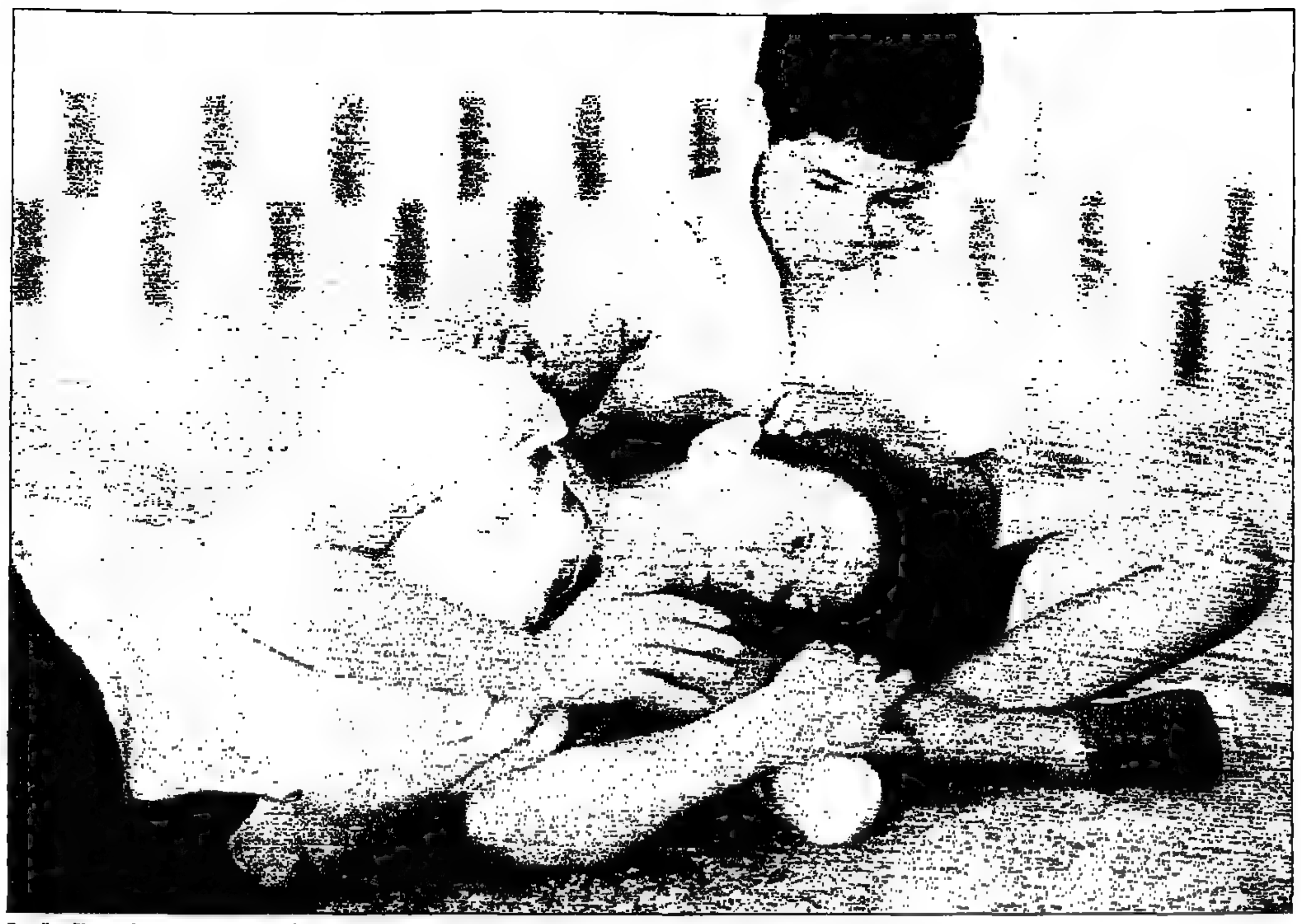
But we know that this uptight quaintness shading into puritanism will finally be saved by a breath of pre-millennial free-thinking – without, of course, the town's basic decency being destroyed – and two hours is a long time to wait for the inevitable.

★

At last a feelbad movie! Steven Soderbergh's *Schizopolis* spearheads a season of American Independent films at the Curzon Soho. How refreshing to have the experienced director of *sex, lies and videotape* and lately *Out Of Sight* go low-budget for this 1996 satire on wacky thought cults – all resemblances to Scientology are purely coincidental – made for lunch money with a few friends.

How refreshing and yet, alas, how unwatchable. Soderbergh, starring as well as writing and directing, plays the dual role of speechwriter for a New Age evangelist and the dentist who seduces the speechwriter's wife. At least I think that is what happens. The plot behaves like a Rubik cube run amok, the dialogue is sometimes in Japanese or Spanish, and the only laugh-out-loud jokes in what presents itself as a comedy come at the beginning and at the end.

You may escape to other films in the season. I commend Spike Lee's vivid, indignant, affecting documentary about a multiple race murder *Four Little Girls*, his best work since *Jungle Fever*.



Bonding like mad on the road: Fernanda Montenegro and Vinicius di Oliveira in Walter Salles' award-besieged film, 'Central Station'

MUSIC

Homage paid to Goethe

Johann Wolfgang von Goethe turns 250 this year. The main celebrations are going on in Germany, of course, and in London the Goethe-Institut is doing the honours. Music has to have a place, for composers since Mozart have raided Goethe for lyrics and dramatic texts. Last weekend the South Bank duly mounted a mini-festival, *Goethe: Life, love and music.*

On Saturday Thomas Allen and the lovely Norwegian soprano Solveig Kringelborn explored some of the *Lieder* generated by Goethe's poetry, with Roger Vignoles at the piano and Samuel West reading from the novel *Wilhelm Meisters Lehrjahre*. In the latter the principal characters have many "songs", all of which have been set again and again by composers from the most distinguished to the utterly obscure.

As originally announced, the recital promised a feast drawn entirely from *Wilhelm Meister* songs, probably matching different versions by the likes of Beethoven, Schubert, Schumann, Liszt and Hugo Wolf. But in the event, we got a promiscuous programme – 15 miscellaneous songs, plus 11 from *Wilhelm Meister* interspersed with readings (not specially illuminating) – that went on for two and a half hours.

At least it gave both singers the chance to display their impressive dramatic ranges, and neither of them seemed to tire. At the end, Allen was still fresh enough to deliver Wolf's "rat-catcher" song with sharp, sinister wit, and Kringelborn to go into thrilling full cry with "Hoch beglückt in deiner Liebe".

Sunday brought a concert of orchestral music inspired by Goethe. We might have had Mahler's Eighth Symphony, which sets the whole last scene of *Faust* to music; but Mark Elder and the Orchestra of the Age of Enlightenment settled for less extravagant pieces. They began with a fine, stirring account of Beethoven's overture for *Egmont*. Then came Brahms's *Alto Rhapsody*, in which the mezzo Jane Irwin delivered the Goethe verses with dedicated fervour.

A less familiar choice was Liszt's *A Faust Symphony*: not often played, still less by a proper period-instrument band like the OAE. If the diabolical "Mephistopheles" finale sounded a tad tame with those softer instrumental voices, the charms of Liszt's orchestration were well served, especially in the "*Gretchen*" movement. All in all, the weekend taught us nothing new about Goethe; but it made a good excuse for parading a lot of good music.

David Murray

Goethe weekend supported by Pritchard Englefield and the Goethe-Institut, London.

Drama built in ambiguity

THEATRE

ALASTAIR MACAULAY

Speer
Almeida Theatre, London N1

The little Almeida Theatre in Islington keeps on developing an artistic policy as grand as if it were in fact the National Theatre of Great Britain. It is also a haven to actors, British and foreign. Ralph Fiennes, Diana Rigg, David Suchet, Juliette Binoche, Kevin Spacey are merely among the most famous names to have appeared there in recent seasons; the week in which Irene Worth presented three different programmes is still remembered; last autumn, Ekkehard Schall and his daughter performed a Brecht programme here.

Now the great Austrian actor Klaus Maria Brandauer is here, acting the role of Albert Speer in English, alongside Sven Eric Bechtolf, in *Speer* – a new play written for Brandauer by Esther Vilar. The play was first performed in German in January 1998 in Albert Speer's actual (large) model hall in Berlin's Academy of Arts; Brandauer also directs.

I find it fascinating that the most painful ethical and historical issues of the Third Reich are being examined more intensely in the 1990s than ever before; and that they are feeding into theatre (and film) – indirectly, as in Harold Pinter's last play, *Ashes to Ashes* (which is in part inspired by Gitta Sereny's book *Albert Speer – his Battle with Truth*), partially, as in Michael Frayn's current *Copenhagen*, or wholly, as in *Speer*. Ethical and historical issues which were still being widely brushed under the carpet in Britain and, doubtless, elsewhere 20 or 30 years ago, are now common currency.

Speer has engendered some controversy in German. How could it not? Speer is one of the most ambiguous figures in the history of our century. An ambitious architect, befriended by Hitler in 1933, he became Hitler's minister for war production in 1942 and helped to prolong the second world war; alone among Nazi leaders in 1945, he admitted culpability at Nuremberg; he maintained that he assented neither to anti-semitism nor to genocide.

Vilar's play tackles all this. It is a 90-minute dialogue, set in East Berlin in 1980. Speer, now aged 70, is gradually interviewed by the 50-year-old Hans Bauer about architecture, about the anti-Semitic housing policies of 1939, about his dealings with German nuclear physicists, and more. The interview is at first friendly but becomes a fierce interrogation; and the interrogation is not entirely one-way.

Meanwhile there is the rare pleasure of observing Brandauer act in the flesh. He has become well known to anglophone film viewers after almost 30 years' work in international movies, but *Speer* allows viewers the chance to observe him without interruption in a completely serious drama and in a most challenging role. He has easy dignity and authority – perfect for the role – and much of his acting is exceptionally economical. The least twinkle of an eye or change of vocal register becomes a matter of consequence. Again and again, he exudes Speer's mixture of startling charm and inscrutable self-control. Bechtolf is a worthy foil for him. Seldom do we have the luxury of watching two actors of this intelligence and mastery in a play of such weight.

And yet I confess I resisted *Speer* as both a play and as a production. No: "resist" is the wrong word, for I was struggling to keep my mind on it and even, as it progressed, to stay awake. The amalgam of Vilar's play, Martin Wagner's translation and Brandauer's direction has something fatally untheatrical about it.

Exuding Albert Speer's mixture of startling charm and inscrutable self-control: Klaus Maria Brandauer

Both actors speak English well, but their accents are such that often they place a slight barrier between the play and the audience's instant comprehension. They play a large part of it low-key, but the intensity of this subdued style is in some degree contrived – just as the one major explosion by Brandauer/Speer also feels contrived. And – despite the weight and range and occasional humour – the larger rhythm of Vilar's play plods. One feels the grinding gear-changes between each section as the play trundles over its terrain, inexorably, like an armour-plated tank.

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INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Die Zauberflöte: by Mozart. Conducted by Hartmut Haenchen in a revival of Pierre Audi's staging co-directed by Saskia Boddeke; Mar 13, 15

BERLIN

CONCERT
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Staatskapelle Berlin: conducted by Peter Schreier in Bach's St. John Passion, with the Chor des Mitteldeutschen Rundfunks; Mar 11

EXHIBITION
Neue Nationalgalerie
Tel: 49-30-2660
Max Ernst (1891-1976): retrospective of the German Surrealist; to May 30, then transferring to Munich

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Mar 11, 14

BOLOGNA

OPERA
Teatro Communale
Tel: 39-51-529999
La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessi and Alberto Cupido; Mar 14, 16

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by James Levine in Mahler's Symphony No. 3. With mezzo-soprano Michelle DeYoung, women of the Symphony Chorus and the Glen Ellyn Children's Chorus; Mar 11, 12, 13

EDINBURGH

CONCERTS
Queen's Hall
Tel: 44-131-668 2019
Scottish Chamber Orchestra: Andrew Litton conducts the world premiere of Robin Holloway's Double Bass Concerto, performed by Duncan McTier; Mar 11

LAUSANNE

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Dido and Aeneas: by Purcell/ Curlew River: by Britten. Double-bill conducted by David Stern, with the Purcell staged by Marcel Bozonnet and the Britten by Yoshi Oida; Mar 12, 14

LILLE

EXHIBITION
Palais des Beaux Arts
Goya: un regard libre. Small-scale exhibition which explores the range and peculiarities of the painter's work. Includes loans from around the world; to Mar 14

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
● London Philharmonic Orchestra: conducted by José Serebrier in a programme including works by Stravinsky, Piazzolla, De Falla and Rodrigo. With guitar soloist Slava Grigoryan and castanets soloist Lucero Tena; Mar 12
● London Philharmonic *Orchestra: conducted by* Paavo Berglund in works by Sibelius, Beethoven and Tchaikovsky, with piano soloist Leif Ove Andsnes; Mar 14
● Philharmonia Orchestra: conducted by Christoph von *Dohnányi in Mahler's Symphony* No. 9; Mar 13

EXHIBITION
Tate Gallery
Tel: 44-171-887 8000
Jackson Pollock: arriving in London from New York, this major retrospective of the Abstract Expressionist comprises around 80 paintings and drawings drawn from major public and private collections worldwide; from Mar 11 to Jun 6

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
La Traviata: by Verdi. Revival of Jonathan Miller's staging conducted by Michael Lloyd. Cast includes Alan Opie and Claire Rutter; Mar 11

MILAN

EXHIBITION
Palazzo Reale
Tel: 39-02-8691 5738
L'Anima e il Volto: (The Soul and the Face): major exhibition of *portraiture, comprising* 370 works ranging over 400 years. Artists represented include Titian, Caravaggio, Van Dyck, Picasso and Francis Bacon; to Mar 14

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist *Murray Perahia; Mar 13*
● Munich Philharmonic Orchestra: conducted by Gianluigi Gelmetti in his own Prasanta Alma, and in Rossini's Petite Messe solennelle; Mar 11, 12

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 12, 14

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Paavo Järvi in works by Paul Creston, Bartók and J. Brahms; Mar 11, 12, 13, 16

EXHIBITION
Whitney Museum of American Art
Tel: 1-212-327 2801
Ray Johnson (1927-1995): Correspondences. First major museum show about the artist who was a progenitor of pop and *mail art. The 150 works on* display include paintings, collages and mailings from Johnson's New York Correspondence School; to Mar 21

OPERA
New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 13

PARIS

OPERA
Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke; Mar 12, 15

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony and Chorus: conducted by Herbert Blomstedt in Bach's St. John Passion; Mar 11, 12, 13, 14

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Mar 13

WASHINGTON

CONCERTS
Kennedy Center Concert Hall
Tel: 1-202-467 4600
National Symphony Orchestra: conducted by Leonard Slatkin in the world premiere of John Corigliano's A Dylan Thomas Trilogy. With the Choral Arts Society of Washington and baritone Hakan Hagegard; Mar 11, 12, 13

TV AND RADIO

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EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

The fiscal backdoor

It is not the amount but the direction of Gordon Brown's backdoor redistribution that matters

The buzz words on the fiscal policy of the British chancellor, Gordon Brown, have been "redistribution by stealth". What this means is that he has redistributed income and resources to the poorer members of the population, or those regarded as worthy, by means of backdoor tax increases that the middle or upper range of taxpayers has not noticed – or at least accepted.

In other words, he has avoided headline increases in tax rates with which old Labour used to be associated. Indeed, he has just announced a post-dated 1 per cent cut in the basic rate of income tax and further cuts in corporation tax rates.

Two different questions arise. First, is the *redistribution justified?* Second, how has he managed to get away with it? Some Labour spin doctors talk as if *any* redistribution is self-evidently justified: some right-wing commentators as if it is all a dreadful sin. But unless you regard the distribution of wealth produced by the accidents of inheritance and changes in market scarcities as inherently just, some public policy is required.

All Conservative chancellors have presided over a good deal of redistribution – indeed their normal reply to charges of widening income differences was to point out that those differences were much narrower after tax and social security were taken into account.

On the other hand, unless your ideal is complete equality (obtainable only in the graveyard) the direction of the redistribution does matter, as well as its effects on incentives.

There are some deeper issues which there is not space to discuss here, but are analysed in my longer works (*Essays, Moral, Political and Economic, Edinburgh University Press*). One is the case for some stability in the rules of the game – preferably extending over several parliaments and different political regimes. The other is whether more of the redistribution in an affluent society could be in the form of cash – via what Mr Brown has at long last called a minimum income guarantee – and less in the form of free public services in kind that are still part of Labour's mantra.

The nature of the redistribution in the past couple of years is very much what is popularly assumed – towards children and the working poor. A purist liberal might say that a decision to have children is a personal matter that the state should not encourage or discourage. But an equally good liberal reply is that children did not ask to be born and poverty today is heavily concentrated among families with children, especially one parent or unemployed or one income ones.

This desirable redistribution has been marred by three measures of gesture politics. They are:

- The insistence on a 10 per cent starting band for income tax;
- The extra-large Working Families Tax Credit for mothers who go out to work;
- The minimum wage.

It has often been demonstrated that the best way of helping low income families is by higher benefits; and the next best one by raising the tax threshold by more than the chancellor has done: the least efficient of all is the low tax band. What the three have in common is that they are pieces of baggage that Labour did not manage to drop in the course of its policy reviews and have attained the sacred status of manifesto commitments, not to be questioned by advisers or civil servants who want to be listened to on other matters.

A more favourable verdict is possible on how the revenue has been raised. The main way of raising revenue without raising marginal tax rates is by removing or reducing allowances. This does mean that those affected start paying the basic rate of tax, lower down in the income scale; but at least they do not find that extra effort or initiative is penalised by the 70-90 per cent marginal tax rates that used to obtain and that have been almost eliminated at the bottom as well as the top of the income scale.

Moreover, a good many of the reliefs affected were, like the so-called married allowance or mortgage interest relief, simply concessions to special interest groups that distorted the economy and which most Conservative chancellors would have liked to abolish if the prime minister of the day had allowed them.

How has the chancellor got away with the squeeze on the middle classes whom Tony Blair attracted to Labour? An important reason is that the main squeeze on personal disposable income took place in the first year or two of Labour rule when there was still euphoria about the change of government. The potentially most unpopular move – the withdrawal of the tax credit for pension funds – was announced in the first 1997 Budget.

It is often said that employees will only notice it when they retire and find their pensions less than they expected. But for those in earnings-related schemes the proximate cost will have to be borne by employers and the ultimate effects diffused through the economy.

Mortgage interest relief had already been heavily squeezed by Conservative chancellors after Lady Thatcher's departure, so its elimination is not felt as a big deal. The blows have been further softened by the reductions in short-term interest rates which have reduced mortgage payments before tax. These of course are not a free lunch. The adverse effects are felt by millions of people with small savings accounts who will now receive less.

On the whole the government has done a good job at satisfying its traditional constituencies without imposing new burdens on business and enterprise and in some ways actually reducing them. One can say this even if one is sceptical about the special breaks for the fashionable "winners" of today, such as information technology. They have made the tax system and the grant system needlessly complicated and have created an accountants' benefit bonanza.

The total net so-called budget giveaway is best seen from the figure of £3.6bn which is the Treasury's estimate of the annual impact net of all the measures by 2001-02. There are a few big revenue raisers. The most important are the tax on the business use of energy (known in New Labourspeak as a "climate change levy"); the end of mortgage interest relief and the increased employee upper earnings limits for National Insurance. All these three are to be welcomed.

Another source is the reduced estimates for social security benefits. These arise partly from tightening up and partly from the trend to lower unemployment evident since the mid-1990s. A further source is lower national debt interest, which is ultimately due to lower inflation where the present trend set in – as the "Red Book" charts themselves demonstrate – during the last parliament. They may all be threatened in the medium term by the trend to re-regulation coming from London as well as Brussels.

But the biggest source of all is "fiscal drag", namely the automatic increase in the government's revenue take that comes with economic growth in a tax system not indexed to real earnings. This source would of course be threatened if world economic shocks reduce growth even below the more cautious of the chancellor's alternative projections, as they easily could. For instance, every 1 per cent shortfall of growth below forecasts is estimated to add a cumulative £6bn per annum to Treasury borrowing. The right course would then be to sit it out and base policy on the cyclically-adjusted estimates despite the difficulty of explaining these to the cruder spirits in the media and the financial world.

Overall, the broad direction of fiscal policy under Mr Brown has been right, but it has been marred by new Labour's nannyish tendency to tell people what is good and bad for them. It is also not helped by a propagandist form of presentation that makes it unnecessarily difficult to ascertain what is really happening under all the froth.

Combined effect of government's reforms on high marginal tax and benefit withdrawal rates

Marginal deduction rate*	Before**	After**
100 per cent or more	5,000	0
90 per cent or more	115,000	15,000
80 per cent or more	255,000	175,000
70 per cent or more	715,000	[illegible]
60 per cent or more	730,000	950,000

* Figures are for families where at least one partner works 16 hours or more, and are based on [illegible] and take-up rates. ** Numbers affected

Source: [illegible]

LETTERS TO THE EDITOR

Customer the arbiter of brand value

From Mr Richard McManus.

Sir, It appears misguided to forecast the demise of the "product brand" and the ascendancy of the "philosophy brand" ("Fading stars of the global stage", March 5). The fact that some "product brands" fail to sustain customer relevance is no reason to damn the genre. Perhaps one should rather question the Interbrand valuation method which identifies valuable brand assets that can apparently atrophy almost overnight. And attempts to create "philosophy brands" may prove to be little more than a fashion fad. This seems at odds with creating a brand as an enduring identity which customers value.

Many organisations, quite rightly, carefully invest to create and protect their brand assets. They are acutely aware that customers are the arbiters of brand value and relevance. As a result they carefully track the relative importance of the product and service attributes which underpin a brand proposition for each customer segment. They realise that brand investments will pay off only if the brand-related revenue streams more than offset the cost of brand creation. And with changing customer tastes, in part a reflection of increased choice, those in the brand investment game must have the timely information to allocate resources only to those product and service attributes that their target customers will pay for. Such information is probably more useful than an overall financial assessment of brand value which is backward looking.

Richard McManus,
partner,
PricewaterhouseCoopers,
580 George Street,
Sydney NSW 1171,
Australia

Russian debt restructure a no-win situation

From Mr Timothy Ash.

Sir, Paris Club members should think carefully about the long-run consequences of their actions if, as your article "Sharp fall in international Russian debt" (March 2) argues, they are seeking to force eurobond holders into any Russian debt-restructuring process.

Such an outcome would surely be a no-win situation for all concerned. Holders of all such emerging market bonds would see the price of their assets plunge. The global financial system would receive yet another shock just when it is beginning to stabilise. Emerging market economies would be penalised by higher interest, subduing their development and leaving Paris Club members shouldering a larger burden of their long-term financing needs.

Meanwhile, claims that so-called comparability is required to ease fears over moral hazard are surely misplaced. In Russia's case, having seen the value of their $11bn stock of GKO assets fall by almost 98 per cent and their stock of longer-term London Club debt fall by around 90 per cent, commercial creditors have surely had their eyes opened to the level of risk in lending to Russia and other emerging markets. Even eurobond holders have taken some of the strain, seeing the value of their Russian portfolios fall by more than 50 per cent. Set against this, Paris Club holders' talk of writing off one half of debt owed by Russia seems fairly equitable.

Timothy Ash,
economist, emerging markets,
Westdeutsche Landesbank,
33/36 Gracechurch Street,
London EC3V 0AX, UK

Drawing a line in the sand

From Mr Stephen M Schmitt.

Sir, There are times when economic and social justice dictate that the letter of the law – or treaty – be ignored. There are no compelling reasons to destroy the lives of all the small banana farmers in the Caribbean in order that a couple of giant corporations can make a few more dollars.

There are times when it makes sense to draw a line in the sand. It is a sad commentary that there are leaders who believe that this is not one of those times. They are not using whatever commonsense nature bestowed on them.

What a pity!

Stephen M. Schmitt,
310 Canyon Creek Drive,
Richardson,
Texas, US

Happy for 24 hours a day

From Ms Claudia Binaghi.

Sir, Further to Richard Donkin's report on job satisfaction ("Happiness at work", March 5). It is often said that the self-employed work 24 hours a day but at least they can choose which 24 hours!

Claudia Binaghi,
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New York, NY10011, US

Number One Southwark Bridge, London SE1 9HL

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QUENTIN PEEL

White man's burden-sharing

France and Britain should ditch the colonial legacy of rivalry in Africa and join forces to promote peace and development on the continent

Sometimes it seems to take a particularly ghastly event to shock us into paying attention to the obvious. Thus it may well be with the murders of four game rangers and eight western tourists in Uganda.

The tourists appear to have been singled out for the simple fact that they spoke English. For the killers were French-speaking Hutu refugees from neighbouring Rwanda. They seem to blame Uganda in particular, and the English-speaking world in general, for the loss of their homeland.

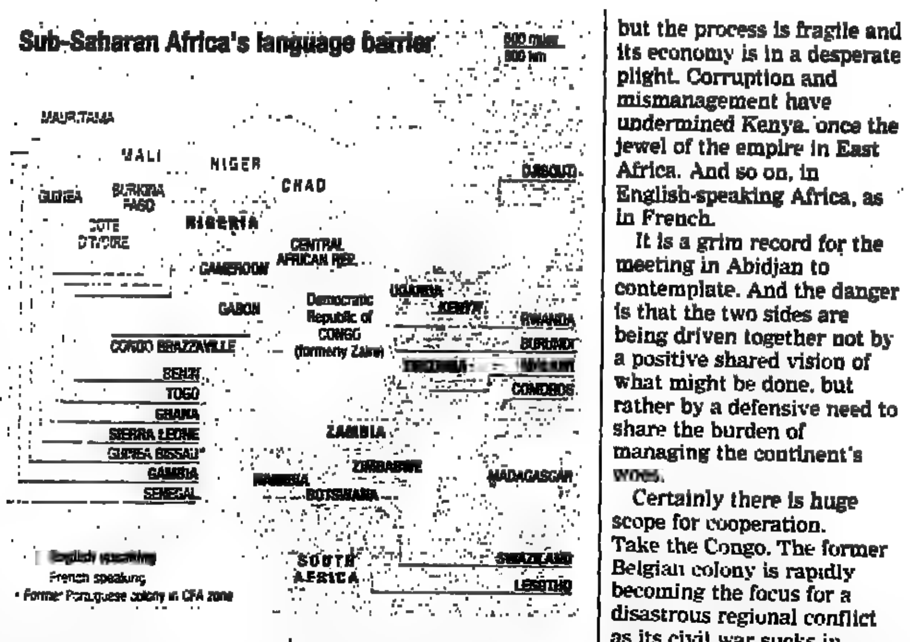
Those murders are a terrible indictment of the legacy left in Africa by Britain and France, the two main colonial powers on the continent. Not only did they scramble for ever bigger slices of empire from the start, but even now the days of empire are over they have continued to bicker and plot to outmanoeuvre one another.

All the more remarkable, therefore, is the Anglo-French meeting due to take place today in Abidjan, the capital of Côte d'Ivoire between Robin Cook, the British Foreign Secretary, and Hubert Védrine, his French counterpart. It is remarkable both because it has taken so long to launch such an initiative between the two European Union partners most closely involved in Africa; and because the rivalry is taken for granted to this day between diplomats across the continent.

The initial purpose of the Abidjan talks is modest. Mr Cook is simply looking for "clearer procedures for working together". Yet the bloody reality of those Ugandan murders should force both sides to be much more ambitious.

The trouble is that the gap to be bridged is very deep: this is about rewriting history, not just defusing a little local rivalry. The whole approach to Africa of these two European neighbours has been profoundly different and it can scarcely be changed overnight.

Sub-Saharan Africa's language barrier



The French saw their colonial role as a "civilising mission" to bring French culture, and above all the French language, to the continent. If a black man could speak French, he was accepted as a Frenchman. From that has stemmed a post-colonial culture which has seen Francophone Africa integrated far more closely into French political life than anything the British have ever contemplated. The former colonies have their own ministry, their own deputies in the national assembly, and their own currency, tied to the French franc (and the euro).

The British style was always more distant: to impart a system of laws and institutions to these countries, and then rule them indirectly through their traditional chiefs and princes. As for the post-colonial relationship, it has kept that distance: exploiting the traditional links of trade and culture, without formalising them.

What has proved most frustrating for the British is that French neo-colonialism seems to have proved more effective, at least in promoting prosperity. Ghana and Nigeria had more economic potential than any French colony, yet today Côte d'Ivoire is the most prosperous country in West Africa.

And yet the inspiration for today's meeting has come more from Paris than London. For the realisation had slowly dawned in the French capital that its African policy was unsustainable: it could not afford the cost of up to 10,000 troops on the continent, nor of preserving an artificial exchange rate for the CFA franc.

France has also seen embarrassing and costly setbacks to its strategy. In Rwanda, its support for the Hutu majority almost certainly contributed to the genocide of 1994. Then in Zaire, now the Congo, it continued to back the corrupt rule of Mobutu Sese Seko long past his sell-by-date.

The British can scarcely afford to gloat. Nigeria may be returning to democracy, but the process is fragile and its economy is in a desperate plight. Corruption and mismanagement have undermined Kenya, once the jewel of the empire in East Africa. And so on, in English-speaking Africa, as in French.

It is a grim record for the meeting in Abidjan to contemplate. And the danger is that the two sides are being driven together not by a positive shared vision of what might be done, but rather by a defensive need to share the burden of managing the continent's woes.

Certainly there is huge scope for cooperation. Take the Congo. The former Belgian colony is rapidly becoming the focus for a disastrous regional conflict as its civil war sucks in neighbouring states, from Anglophone Uganda, Zambia and Zimbabwe to Francophone Congo Brazzaville and Gabon. Here is a perfect case for France and Britain to send a joint peace-making mission round the region, to urge their erstwhile "clients" to talk.

But what the two sides need is more than crisis management. It is a shared vision of what Europe should be doing in Africa, its own backyard, to promote a genuine partnership, with benefits for both continents. They need to analyse and define what those benefits may be, and set a clear list of priorities for joint action, to replace the destructive competition of recent years.

Don't let's knock it. This meeting can take a huge first step, provided it is more than symbolic. But there is a long way to catch up. The dangers of doing nothing are depressingly clear: that Africa will become an exporter not of raw materials, but of its own misery, of drugs, disease and crime. That is a grim colonial legacy for the two leading colonial powers to contemplate.

FINANCIAL TIMES

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Thursday March 11 1999

Against Chinese devaluation

Depreciation of the Chinese renminbi is being discussed, yet again. Yet the extraordinary feature of this long-running debate is that it is happening at all. For, on every normal criterion, the question would rather be how far the Chinese currency is to be revalued.

China has a managed exchange rate, buttressed by exchange controls. Thus the currency's value reflects a deliberate policy decision. Why then might the authorities consider devaluation?

Are they perhaps *running out* of foreign exchange reserves? Hardly, is the answer. At the end of 1998, reserves were $145bn, the second highest in the world, after Japan's. Is the trade balance weak? Absolutely not, is the response. The balance was a colossal plus $49bn in 1998. Is the current account fragile? Certainly not, is the answer. The surplus was a more than healthy $30bn last year, as much as 3 per cent of gross domestic product. China is also the world's second largest recipient of foreign direct investment; its external debt is a mere 15 per cent of GDP; and its reserves are five times as big as its short-term debt.

The question then is why anyone would even consider devaluing a currency backed by so strong an external position. To this there are only two answers, both bad.

The first is that there is a colossal amount of illegal capital flight, estimated by the Economist Intelligence Unit at $67bn last year. This would indeed tend to weaken the currency. One response is that were it not for this flight, reserves would be rising by close to $70bn a year, almost certainly forcing a revaluation. Another is that much of this flight must be driven by irresponsible talk of devaluation.

The second answer is that Chinese growth is slowing, though it still remains, according to China's own figures, quite healthy. But this, though apparently advanced in all seriousness, is hardly an excuse. China would be effectively arguing that it is entitled to compensate for a failure to execute growth-enhancing domestic reforms by pursuing export-led growth, even at a time of great fragility among its neighbours. This policy would almost certainly fail. It would also do huge damage on the way.

A Chinese devaluation should, quite simply, be unthinkable. The leadership should never have been praised for not doing what they should not even have been contemplating. In current circumstances a depreciation would amount to a particularly ill-timed and indefensible piece of predatory mercantilism. The Chinese should be told to reform, instead.

CAP price cuts

With European farm ministers locked in another marathon negotiation, reform of the common agricultural policy (CAP) is urgent. It is a key element of the wider overhaul of EU finances which the Berlin summit later this month is due to tackle. Failure at that summit would delay reform until the autumn, and seriously hold up negotiations to bring east European countries into the Union.

But a good reform is also vital. The main test should be the depth of the cuts it makes in the guaranteed prices the EU pays to its farmers. Even the Brussels Commission's initial proposals of 15-30 per cent cuts would not have brought EU prices down to world levels, except perhaps in cereals. Nor would they touch the EU's variable levy which prevents cheaper world food ever undercutting home produce. But the nearer EU prices get to world levels, the more they will encourage the efficiency which is badly needed in many areas of European farming.

If EU farmers were treated like anyone else, they would get no compensation for price cuts. But the need to provide some compensation is a political reality in Europe. The question is who is to pay for it, when the Union is pledged to switch budget resources from farm support to pave the way for enlargement.

The first response of the German presidency, with the support of most member states, was to press for "co-financing", whereby national governments would compensate farmers for price cuts. That would put ministers under political pressure to limit payments. At present there is no incentive to cut the CAP budget. The tendency of farm ministers in Brussels has been likened to people sharing a restaurant bill: they all order lobster.

Co-financing, however, has its drawbacks. It transfers the financial burden but would not automatically reduce it. In some circumstances it could risk a subsidy race which would bring the EU into conflict with the World Trade Organisation.

For the moment co-financing has been blocked by France, which dreads the cost of national payments. The French counter-proposal is for the EU to continue to pay compensation, but in amounts decreasing each year. This could reduce the overall cost but carries the serious danger of being used as the pretext for only small price cuts.

The EU has to find the courage to cut prices and limit compensation in amount or time, if it is to avoid a major row with its world trading partners and an absurd delay to enlargement. It would be ridiculous as well as unaffordable to offer east European farmers compensation for cuts in prices they never had.

Eat or be eaten

Economic and monetary union has already provided the impetus for big alterations in the European banking landscape. The hostile bid by Banque Nationale de Paris for rivals Société Générale and Paribas brings an uncharacteristically Anglo-Saxon flavour to events. And in due course Crédit Lyonnais will be privatised with much fanfare.

The stage is thus set for the overdue rationalisation of French banking. But do not assume that the Anglo-Saxon overlay guarantees an economically efficient structure for the industry. There is a language problem here.

In privatising Crédit Lyonnais the French government is not looking for the most efficient capital structure. It wants a core group of friendly insider shareholders to pre-empt unsuitable corporate reshuffling.

As for rationalisation, it does not, in France, necessarily mean the elimination of spare capacity in the high street or the slimming of surplus employees. Finance minister Dominique Strauss-Kahn has said that employees must not pay the price for endless restructuring. And the bankers have listened.

BNP, before its latest move, promised to give extensive job guarantees at Crédit Lyonnais if it was allowed a significant stake. And the reason Société Générale made its cosy offer for Paribas before being so rudely interrupted by BNP was partly that Paribas had no branches. There was thus no need for a politically tricky rationalisation.

What drives these ownership changes is an obsession with size. The French government believes that consolidation of ownership, as opposed to consolidation of the industry, would somehow improve the international competitiveness of French banking.

BNP says that a takeover of the other two banks would create "a French champion in the European banking industry and a major player at world level".

Chief executives have an instinctive drive for size regardless of nationality. So, too, do the stock market analysts who declare that there is now pressure on the other banks to make a move to avoid being "marginalised". Size, of course, tends to deliver bigger pay to chief executives, while mergers provide fees for the analysts' employers.

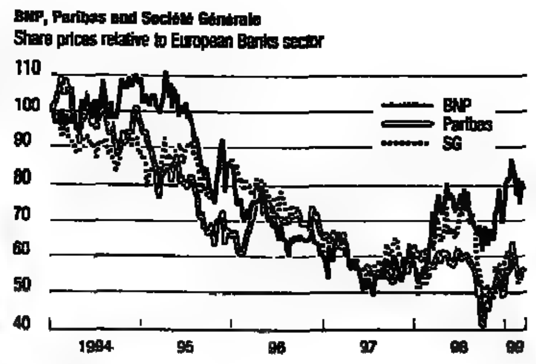
Perhaps the takeovers that result will deliver efficiency gains and higher equity returns. Note, though, that BNP's strategy is not unlike the one that led to insolvency at Crédit Lyonnais. Personalities and pique will play a big part in the outcome of the bids. And nobody dares talk explicitly about cost-cutting redundancies. Outside shareholders will no doubt be told that their interests will be treated with the utmost respect in this rationalisation. The innocent among them will be grateful.

Dangerous liaisons

Even if BNP's hostile bid for SocGen and Paribas is rebuffed, the traditionally closed world of French banking will never be the same again, say Samer Iskandar and Robert Graham

Three is a crowd

Daniel Bouton, SocGen chairman — Andre Levy-Lang, Paribas chairman

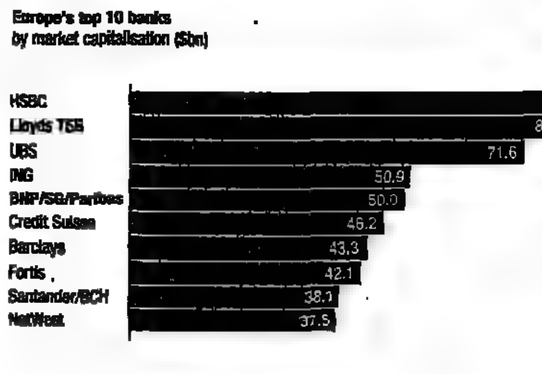


Top 10 French banks* December 1997

	Ranked by Tier One capital ($m)	Total assets ($m)	Pre-tax profit ($m)
Credit Agricole Groupe	22,273	419,847	2,927
Banque Nationale de Paris	11,518	339,711	1,372
Groupe Caisse d'Epargne	10,967	214,788	640
Société Générale	9,742	449,975	1,682
Paribas	8,535	245,110	1,878
Credit Mutuel	7,849	108,339	706
Crédit Lyonnais	7,129	250,200	702
Groupe Banques Populaires	5,426	111,187	694
CCF (Crédit Commercial de France)	2,961	66,610	440
Natexis	2,902	49,967	48

* Converted to $ using exchange rate $1=FFr5.98 Dec 1997

Source: The Banker; Reuter; Datastream/ICV



Michel Pébereau
BNP chairman

The French invented the idea of a *ménage à trois*. Now this concept is being extended to banking with the unexpected hostile bid by Banque National de Paris to take over Paribas and Société Générale and create Europe's largest bank by assets (though not by market capitalisation). The move would lock three large executive egos in an improbable embrace, when two of them had already agreed to a match.

A month ago, SocGen and Paribas agreed to merge. They worked out a relatively simple modus vivendi: Daniel Bouton, SocGen's chairman and the country's youngest bank chief at 48, was willing to let André Lévy-Lang, chairman of Paribas, the consenting target, to be the *chef de famille* until his retirement in a couple of years.

Now Michel Pébereau, chairman of BNP, has muscled in on this cosy domestic scene. He is offering an ill-defined, three-way arrangement for running the giant merged bank. Not surprisingly, Mr Bouton and Mr Lévy-Lang have given him a hostile reception. If BNP's offer were successful, it would almost certainly be accompanied by a fierce battle for leadership of the merged entity. It would also create an even-bigger French "national champion" in the pan-European banking business that is slowly emerging as a result of the single currency.

However, leading analysts doubt Mr Pébereau's initiative will go far enough for the question of leadership to arise. BNP's plan, leaked late on Tuesday and unveiled yesterday, has been temporarily code-named the SBP project, after the three banks' initials. The hasty manner in which it was put together looks more like a desperate attempt to block the merger of Paribas and SocGen than a coherent project. The marriage had left BNP marginalised – and Mr Pébereau frustrated because he had his eyes on Paribas.

"Mr Pébereau's move is reminiscent of a child who sees another kid on the block with a brand new shiny toy and wants to take it from him," says Brenlen Jinkens, principal at A.T. Kearney, the management consultants, in London. Similar feelings seem to lie behind the terse, but more diplomatic joint statement issued yesterday morning by Mr Lévy-Lang and Mr Bouton: "This operation can not be considered friendly."

Executives at these two banks say that the options they will examine include:

- accepting BNP's bid;
- making a joint counter-bid for BNP;
- improving the terms of SocGen's offer for Paribas.

"The management at both banks is still recovering from the shock of the announcement," says a consultant familiar with the banks. "But I can safely predict that surrendering to BNP is the least likely outcome."

In setting up their defences, managers will for once enjoy support from the trade unions. Force Ouvrière, one of the largest unions, yesterday warned SocGen employees that surrendering their SocGen shares to BNP's offer would amount to "digging their own graves". The union called on "all employees to oppose this offer" and pledged to "join all initiatives to make this unfriendly raid fail".

With some 8 per cent of the bank's capital, SocGen's staff are the bank's largest group of shareholders. Three-quarters of employees based in France hold SocGen shares. One SocGen executive said yesterday, not without relief: "It is comforting to know that our largest shareholder group is already opposed to the deal in principle."

Yesterday, the Bank of France, which regulates the banking industry, said it had a preference for "solutions that respect the smooth functioning of the market" – which seems to suggest that if the project were deemed to be causing unnecessary disruption, it would not be approved (the central bank and the competition regulator must both give their approval to the three-way deal). Nevertheless, the central bank and the government said the proposed deal would be examined from the point of the view of the "national interest".

The government has said that the SBP project will not affect the privatisation of Crédit Lyonnais, a large state-owned commercial bank, one third of which is scheduled to be sold in the next few days. But it is hard to see how the sale can remain unaffected.

The government wants a handful of long-term investors to take large stakes in the bank. BNP, SocGen and Paribas had all expressed an interest in taking such stakes. But BNP's bid for the other two banks means all three will be more concerned with themselves than with Lyonnais' privatisation.

Whether BNP's offer is successful or not, it will shake up the French banking industry and is almost certain to have beneficial effects, at least on the three banks concerned.

Some argue the SBP project has merit, when viewed in the light of the wider rationalisation of European banking. Mr Pébereau, for example, argues that SBP would be "a champion on the French market and one of the leaders on a global scale."

> **Whatever the outcome, BNP's bold move has broken the taboo against making hostile bids in the financial sector**

With a market capitalisation of more than €50bn, more than 4,700 branches, 11m clients, 18 per cent of French bank deposits, and 130,000 employees, SBP would be Europe's largest bank. It would also be more than double the size of Crédit Agricole, its nearest French competitor. Among its considerable assets would be one of the world's largest portfolios of industrial holdings.

But French competition regulators and the European Commission (which may also rule on the deal) might yet express concern over SBP's market share of nearly 30 per cent of personal loans.

Mr Pébereau's plan is believed to have the backing of Claude Bébéar, chairman of Axa, the insurance company that is the largest shareholder in both BNP and Paribas. Mr Bébéar is thought to have voted in favour of the SocGen Paribas merger only reluctantly.

People who know Mr Bébéar say he has always favoured a link-up between BNP and Paribas, and possibly, in a second stage, a further link up with the privatised Crédit Lyonnais.

While Mr Bébéar is seen as the most obvious beneficiary of BNP's offers, other shareholders of SocGen and Paribas might also be pleased to be presented with a wider array of options. "At the very least, this will force SocGen and Paribas to lay out their plans in more detail," says Mr Jinkens at A.T. Kearney.

Since the SocGen Paribas project was announced, SocGen and Paribas have underperformed the French stock market. Paribas shares have fallen almost 7 per cent and SocGen's by 5 per cent, compared with a 3.3 per cent fall in the CAC 40 index of French blue chips.

Whatever the outcome of this battle, the wholly unexpected move by Mr Pébereau has broken two corporate taboos in France.

For a start the BNP move has established that it is possible to make a hostile bid in the politically sensitive financial sector. The only precedent was that of Italy's Generali trying to take a stake in the French insurance group AGF in 1997. Generali was politely warned off by the French finance ministry, which made it clear it had already lined up Germany's Allianz as its preferred partner.

But Generali had sought to work through the official channels. That is why BNP's move was so astonishing: it struck out on its own, without consulting the two target banks or seeking to square its action with the powerful finance ministry and regulators at the Bank of France.

Mr Pébereau's surprise move will make it more difficult for the authorities to appear formally neutral if they do not like the deal and want to influence the outcome.

Indeed, the outcome is so important to the future of French banking that neither Dominique Strauss-Kahn, finance minister, nor the Bank of France can in practice stand aloof. Having championed the original Paribas-SocGen alliance as an ideal Franco-French solution to bolster the nation's banking profile, the Socialist-led government risks appearing dangerously partisan if it were seen to be responsible for sabotaging Mr Pébereau's bid.

Furthermore, if the SBP project fails, it will prove more difficult to reshuffle the merger banking cards in a way that keeps the consolidation of the sector in French hands. Foreigners, who have been kept at arms' length, may then feel emboldened to become more closely involved in the sector's restructuring.

So far, the instinctive reaction of the French establishment to bank concentration has been to build up a national champion – or several if possible. Only then would the authorities, and French bankers, be willing to face a bigger foreign presence.

The other taboo that has been broken has been the cavalier treatment of the well-organised bank unions. Throughout the privatisation process of recent years, the unions have played an important role in conditioning offers. Under the present government, the preservation of employment or job creation have been key elements in acceptable bids.

The unions have frequently been consulted in advance; but they had no inkling of Mr Pébereau's designs on Paribas-SocGen, and were clearly unhappy with his assurances on jobs yesterday. By now, the unions are aware that concentration in the banking sector will inevitably lead to job losses – probably soon.

The BNP bid has underlined the sheer speed of change in banking following the launch of the euro. The Paribas-SocGen merger was put together in a matter of weeks. In the case of the SBP project, barely a month. This is light years away from the traditional closed world of French banking.

OBSERVER

Michel's merger mania

The Pébereau family isn't exactly one of France's more unassuming clans. Buccaneering is more like it.

Eleven years ago Georges Pébereau shook up his countrymen with his unwelcome bid for Société Générale – not the sort of thing French financial chieftains expected from one of their own.

This week, it was his brother Michel's turn to set his sights on the same target. Frère Michel – who is in charge of the biggest numbers at Banque Nationale de Paris – raised the curtain on plans for a two-pronged hostile takeover bid that would link BNP with SocGen and Paribas to create the biggest bank in Europe.

So who's going to get the number one slot at any future superbank? So far Pébereau's keeping mum. It's the banks' various boards who should decide such things, he says. And anyway, it's far too soon to speculate "on the leadership issue".

According to his very own blueprint, if the deal ever gets done, BNP would have a slightly smaller slice of the new entity than the other two banks. So it could be logical for Pébereau to take the third biggest chair in the new group's hierarchy.

But something tells Observer the pugilistic Pébereau might just be aiming a little bit higher.

Hark at Helmut

Remember Helmut Kohl? The former German chancellor has enjoyed a low profile since his election defeat last September, refraining from adding to the embarrassments of his successor Gerhard Schröder. But the 68-year-old Kohl has ended his vow of silence. Yesterday German TV channel Phoenix broadcast an interview with the heavyweight former chancellor who oversaw German reunification.

During the three-hour marathon session, Kohl divulged he plans to "engage massively" in European policy. But he's promised to wait until after June's European elections. The new generation of socialist leaders has been adequately warned.

No comment

So it's not always journalists who get accused of making things up. Goldman Sachs has formally apologised to Thai finance minister Tarrin Nimmanahaeminda for attributing to him comments he says he didn't make.

The contentious quote – reported and later retracted by Goldman's Asian banking analyst Roy Ramos – explained that the country's largest bank, Bangkok Bank, was also the biggest risk to the Thai financial system. Bangkok Bank's shares fell 8 per cent a day later.

So why did Goldman grovel? A fit of humility maybe? Unlikely. It's more probable that Tarrin demanded an apology, or Goldman feared the cancellation of a bond-underwriting deal with the government.

Or perhaps the investment bank didn't want to damage further the political standing of a man whom foreign investors see as one of their biggest allies in Thailand. Whatever, Observer reckons, as usual, sorry must have been the hardest word.

Motoring along

Raving mad about motors? Got a bit of a bee in your bonnet about your neighbour's Ford Focus? Car fans and industry types simply exhausted with plodding around the gargantuan Geneva Motor Show now have an alternative.

To get the latest from the auto-world it might be better junking the industry's trade show and hanging around the agreeable lakeside town of Lausanne instead. That's been the backdrop to some of the industry's more momentous decisions in recent years.

A year ago, the top four executives of Daimler Benz and Chrysler had a clandestine meeting in the splendour of the town's Beau Rivage Hotel to discuss their merger.

And this week, DaimlerChrysler bosses were at it again in Lausanne when they decided to kill plans to acquire Japan's Nissan Motor. The industrial auto behemoth says it still needs to focus on its own marriage.

So the lesson is clear. Those wanting to be in the know need to do some serious lurking in Lausanne.

Going bananas

So it seems half the world has come a cropper on a banana skin. All those European and US diplomats engaged in all-out war over the banana trade have found the going somewhat slippery.

But Umberto Eco, celebrated semiotics professor and literary Eurotalent, doesn't get it. The author of the best-selling medieval whodunnit *The Name of the Rose* points out that banana skins are not, in fact, slippery – at least, no more so than a tomato or any other fruit.

The reason that bananas have a reputation for causing accidents is all down to Hollywood. In the early days of cinema, slapstick scriptwriters had characters losing their balance instead on sidewalk dog deposits. Studio bosses – casting around for a more demure substitute – chose the banana skin as altogether less offensive. Nice one, Umberto. But watch your step.

The Financial Times

100 years ago

German Colonial Railways
Berlin, 10th March. The Reichstag considered the estimates for the German Protectorates to-day. In the Budget for East Africa the Reichstag Committee proposed that of the two million marks asked for by the Government for the extension of the Tanga railway 250,000 should be struck out. Count Stolberg moved that the Government demand be granted, on the ground that the Usambara Railway was a necessity. Dr Von Buchka, director of the Colonial Office, warmly urged adoption of the Government proposals, and pointed out how much attention the British were devoting to railway construction in Africa.

50 years ago

Tin In Ontario
Fort William, Ont. Mar. 10. The discovery of tin ore at Linklater Lake is described in the Ontario Department of Mines preliminary report as worthy of further and careful prospecting. The report added that "it would not be unreasonable" to expect the existence of other mineable widths in the area north of Armstrong.

FINANCIAL TIMES
THURSDAY MARCH 11 1999

THE LEX COLUMN

Ménage à trois

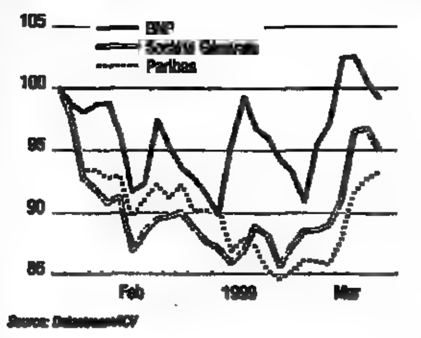
Has Banque Nationale de Paris gone mad in mounting the first hostile bid in French banking? Certainly not, although there may be a hint of desperation in the move. BNP has been conspicuous for its failure to cement a deal in a sector that has been consolidating rapidly. Before the proposed Société Générale/Paribas deal, the mutuals had made the running. Crédit Agricole had bought Indosuez, and Crédit Mutuel CIC. SG had at least acquired Crédit du Nord from Paribas, but BNP kept being thwarted – most recently on two fronts.

First, it was keen to do a deal with Paribas before SG stepped in. So its bid for Paribas is perfectly consistent. And under French rules it was in effect forced to bid for Paribas' rival suitor as well. Second, BNP's request to be leading shareholder in Crédit Lyonnais, which is being privatised, seems to have fallen on deaf ears. Faced with isolation, BNP is right to re-open the debate about who should do a deal with whom. Yet its audacious three-way merger plan may well be the least likely outcome. Among other possible permutations must be included a bid for BNP by a foreign bank. It has put itself as well as its targets in play and blazed a trail for unsolicited approaches.

So what is the best permutation? In theory, the three-way tie-up has merit. It addresses an important weakness in the SG/Paribas deal, namely the limited scope for domestic rationalisation. Paribas does not have a branch network; the other two have 4,700 branches between them. In a perfect world – one without French banking unions – such an overlap would offer a great opportunity to strip out costs. Indeed, BNP points to €1.3bn ($1.4bn) of savings from a three-way merger, versus €800m from SG/Paribas alone. And that first stab stresses politically less contentious cuts in information technology and back-office spending. Meanwhile, Paribas' investment banking activities would be run more at arms' length and gradually have excess capital drained out of them to be redeployed into retail and private banking. Nevertheless, if putting two banks together is tricky, three is excruciatingly hard.

Short of a three-way merger, BNP seems still to prefer a marriage with Paribas, hence the bigger premium it is offering. The fact that Paribas would be in the ascendant in investment banking might

French banks
Share prices since the SG/Paribas deal announced (rebased)



Source: Datastream/ICV

please some within the target, especially those fearful of merging with the more formidable SG. But that cuts less ice at the top, where André Levy Lang of Paribas is set to be chairman and chief executive of the combined SG/Paribas, with Daniel Bouton of SG as heir apparent.

But they will now have to defend their rather cosy-looking deal more robustly. And probably sweeten it, ideally with some cash, to counter the premiums BNP is offering both SG and Paribas shareholders, albeit in shares.

There is still a risk then that BNP may end up with nothing. But it is to be congratulated on starting a proper auction.

DaimlerChrysler/Nissan

Jürgen Schrempp, DaimlerChrysler chairman, has never disguised his ambition to make his company the first global auto assembler. But discretion has proved the better route to value, at least as far as leaving Nissan alone goes. A deal with Nissan would have lifted Daimler's Asian sales to 19 per cent of its total, within spitting distance of the 20-25 per cent 10-year target. And the entrée into the Japanese truck market was certainly tempting.

But the risks of taking a majority stake in Nissan Motor – the only way Mr Schrempp could be sure of having total control of its 40 per cent-owned Nissan Diesel truck unit – always looked high. Nissan's outstanding debt of $35bn, which represents more than three times its market value and about half annual revenues, is hardly enticing. And off-balance sheet liabilities are a further worry. Excessively close relations with suppliers would have constrained Daimler's ability to make half-way decent returns.

Another risk was potential collateral damage to the rest of the company. Extracting the benefits of the Daimler-Chrysler merger is still the main task for the company over the next two to three years. Integrating a third culture in such a short space of time would have been asking for trouble. Daimler's withdrawal is bound to give Renault pause for thought on the wisdom of a Nissan deal. So, for Nissan, the worst is yet to come.

DuPont

For a company that makes much of its commitment to increase shareholder value, DuPont's approach seems curiously half-hearted. The chemical group's plan to launch a so-called tracking stock for its life sciences division is fine as far as it goes. Life science companies trade on earnings multiples of over 30 times against DuPont's own 20 times, so creating a separate security should allow value to emerge. It will also furnish an acquisition currency.

But this decision must be placed in context. Until now, DuPont has tried to convince investors that the entire group should be valued as a faster growing, less cyclical life sciences powerhouse – a claim that was undermined by three profit warnings last year. The tracking stock is thus an admission of defeat. And how much value it will create remains to be seen. After all, life sciences contributed just 16 per cent of 1998 earnings. Meanwhile, DuPont's heavy investment in genetic seeds looks less and less likely to produce acceptable returns soon, judging by the furore genetically modified food is causing in Europe.

Given the mixed record of tracking stocks, a spin-off of life sciences looks the better option.

DuPont still argues there are synergies with chemicals, but the successful demergers among its peer group suggest otherwise. Longer term, DuPont's life sciences arm will in any case have to buy or merge with a rival such as Monsanto or risk becoming an also-ran.

Nikkei climbs 2.5% amid signs of investor optimism

By Gillian Tett and Alexandra Nusbaum in Tokyo

A combination of imminent government action, improved economic figures and returning investor confidence brought a rare burst of optimism to the Japanese equity market yesterday.

The Nikkei 225, the key stock market indicator, rose 2.5 per cent to 15,480, amid extremely heavy trading and foreign buying. That left the stock market at its highest level for seven months, and 16 per cent up on the week.

Kathy Matsui, analyst at Goldman Sachs, said: "In the last few days, this [rally] has been driven by foreigners – people are looking to give Japan the benefit of the doubt."

The cost to Japanese banks of borrowing dollars has also tumbled dramatically in recent weeks as international investors have started to believe Japan is finally tackling its long-running financial problems.

The "Japan premium", or the extra cost to Japanese banks of borrowing in dollars compared with European and US banks, has fallen to around zero for the strongest banks, its lowest level for five years.

Bank of Tokyo Mitsubishi, for example, is paying 4.95 per cent for one-month euro-dollars in the London market and 5.06 per cent for three-month euro-dollars, similar to the market average of 4.95 per cent and 5 per cent for Western banks.

The decline partly reflects the fact that most banks have already raised sufficient funds for the 1998 fiscal year. But it is a sharp contrast with last October, when the Japan premium rose to a record high of 100 basis points (one percentage point), as international investors' fears of possible banking collapses grew.

The new signs of confidence are a welcome boost for the Japanese government, which will formally announce tomorrow the injection of about Y7,450bn ($65bn) of public funds into the banks' capital base. Analysts say foreign investors' attitudes towards Japan are also changing, as optimism increases.

That is partly a result of recent banking reforms. But some investors also hope that corporate Japan is implementing new restructuring plans. This week, for example, Sony, the electronics group, announced that it would cut its workforce by 17,000.

Investor sentiment has been further boosted by the Bank of Japan's recent efforts to push overnight market rates to zero. This could fuel inflation and weaken the yen, making exports more competitive.

Alex Kinmont, analyst at Morgan Stanley, said: "The bear market finished last Friday – we don't have to worry about new lows any more."

At the beginning of last month, Eisuke Sakakibara, Japan's influential vice-minister of finance for international affairs, said Japan's financial crisis would be over "in one or two weeks".

But some analysts, such as Ms Matsui, still fear that the stock market rally could end later this year if corporate restructuring slows again. Japan's trading partners, such as the US, are also concerned that Y7,450bn is insufficient to remove the banks' bad loans.

Ecuador's high bond yields reflect fears of debt default

By Arkady Ostrovsky

The deteriorating state of Ecuador's banking system and increased risk of a default on its external obligations has pushed up the country's bond yields, making it the world's second riskiest market after Russia.

The price of Ecuadorean Brady bonds has fallen sharply in the past month and has been particularly volatile since the government closed the country's banks indefinitely on Monday for a "holiday" to halt the run on deposits.

The spread between the yield on Ecuador's bonds and on benchmark US Treasury bonds has widened by almost 10 percentage points (1,000 basis points) in the past month. The spread touched 2,300 basis points over US Treasuries yesterday. Russia's yield spread is almost 5,500 basis points.

Peter West, chief economist at BBV Latinvest in London, said while yield spreads were not yet at default levels they reflected increased concern about the government's ability to service its external debt.

Ecuador's government has declared a state of emergency and yesterday brought in troops to guard oil installations and electricity plants during a two-day general strike, staged to protest at the government's austerity plans. Riot police broke up protests with tear gas.

Analysts say Ecuador had no choice but to reform its banking system and push for tough fiscal measures, including an increase in value added tax, if it wanted to reach an agreement with the International Monetary Fund and avoid economic collapse.

The government is due to announce measures to restore investor confidence today.

Joyce Chang, emerging markets debt strategist at Merrill Lynch in New York, said it would be wrong to compare Ecuador with Russia, which defaulted on its domestic debt last August. Unlike Russia, Ecuador is not in imminent danger of insolvency and the size of its domestic debt is negligible.

But the risk of Ecuador going into a steep economic decline was high, she added. It only has to pay $240m this year in interest payments on its $4.4bn Brady bonds, but it is already in arrears on its Paris club debt (borrowings from other governments). The country has foreign exchange reserves of under $1.3bn.

Ms Chang said the sharp falls in the price of its Brady bonds reflected the extreme risks investors were facing. "Ecuador's government only has two options: either to take difficult steps to secure IMF support, or to go into a downward spiral."

The government has raised the possibility of introducing a currency board as a means of restoring stability to the battered sucre – which has fallen about 40 per cent against the US dollar since it was floated last month – and bringing confidence back to its financial system.

Analysts said a currency board was unrealistic.

"Nobody really believes they are in the position to introduce a currency board at this stage. The preconditions for this simply do not exist in Ecuador," Mr West said.

CONTENTS

A Tibetan refugee runs away from a burning effigy of Chinese president Jiang Zemin during a protest marking the 40th anniversary of China's occupation of Tibet in New Delhi yesterday. Picture: AP

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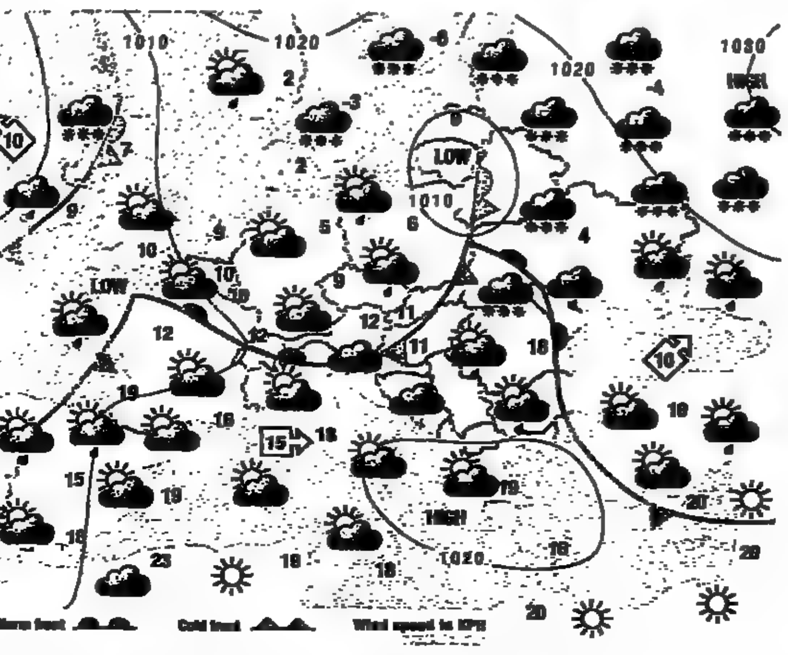
FT WEATHER GUIDE

Europe today

Western Scandinavia will be dry with snow showers in the east. *More snow is likely over the eastern Baltic and western Russia.* Rain over northern France will clear from the west but central and southern parts will be sunny with small amounts of cloud. Much of Germany will be fine but showers in the south will affect Austria, Czechoslovakia and Hungary. Portugal and northern Spain will have sun and showers. The rest of Spain and the remainder of the Mediterranean should be dry and mostly sunny.

Five-day forecast

It will stay unsettled in the north with snow showers over Scandinavia and the Baltic states. Spain may have showers tomorrow and on Saturday. Central Europe and the Mediterranean will be mostly dry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	27
Accra	Sun	33
Algiers	Sun	23
Amsterdam	Fair	9
Athens	Sun	19
Atlanta	Sun	9
B. Aires	Fair	27
B.ham	Fair	8
Bangkok	[illegible]	36
Barcelona	Fair	17
Beijing	Sun	7
Belfast	Rain	8
Belgrade	Fair	19
Berlin	Fair	5
Bermuda	Thunder	19
Bogota	Cloudy	21
Bombay	Sun	32
Brussels	Fair	10
Budapest	Fair	11
C.hagen	Fair	2
Cairo	Sun	22
Caracas	Cloudy	29
Cardiff	Rain	7
Casablanca	Shower	16
Chicago	Sun	2
Cologne	Sun	11
Dakar	Sun	23
Dallas	Shower	23
Delhi	Sun	29
Dubai	Sun	26
Dublin	Rain	9
Dubrovnik	Sun	12
Edinburgh	Cloudy	8
Faro	Shower	16
Frankfurt	Fair	11
Geneva	Fair	12
Gibraltar	Shower	18
Glasgow	Shower	7
Hamburg	Fair	5
Helsinki	Snow	-8
Hong Kong	Fair	21
Honolulu	Fair	27
Istanbul	Sun	13
Jakarta	Shower	31
Jersey	Rain	9
Johannesburg	Sun	27
Karachi	Sun	29
Kuwait	Sun	28
L. Angeles	Fair	16
Las Palmas	Fair	21
Lima	Cloudy	27
Lisbon	Shower	13
London	Cloudy	10
Lux.bourg	Shower	8
Lyon	Fair	17
Madeira	Shower	17
Madrid	Fair	15
Majorca	Sun	19
Malta	Fair	16
Manchester	Fair	8
Manila	Fair	33
Melbourne	Fair	23
Mexico City	Fair	27
Miami	Sun	26
Milan	Fair	15
Montreal	Snow	-3
Moscow	Snow	-4
Munich	Rain	10
Nairobi	Sun	29
Naples	Sun	18
Nassau	Fair	26
New York	Fair	4
Nice	Fair	16
Nicosia	Sun	20
Oslo	Sun	2
Paris	Rain	12
Perth	Sun	28
Prague	Shower	9
Rangoon	Sun	35
Reykjavik	Snow	[illegible]
Rio	Sun	30
Rome	Fair	18
S. Frsco	Fair	13
Seoul	[illegible]	7
Singapore	Fair	32
Stockholm	Snow	-3
Strasbourg	Rain	11
Sydney	Fair	24
Tangier	Shower	18
Tel Aviv	Sun	20
Tokyo	Shower	13
Toronto	Sun	-2
Vancouver	Fair	12
Venice	Cloudy	14
Vienna	Shower	12
Warsaw	Hail	6
Washington	Fair	4
Wellington	Fair	20
Winnipeg	Fair	1
Zurich	Rain	10

Success story of a proud and purposeful city

The capital of Catalonia, the most developed of Spain's self-governing regions, wants to start the next century with as much energy as it did this one. **David White** reports

In the same way that Barcelona football club boasts of being "more than a club", Barcelona itself is more than Spain's second city.

With 4.2m people in its greater metropolitan area it provides a powerful counterweight to Madrid, the seat of centuries of centralised power. Capital of Catalonia, the most developed of Spain's diverse and nowadays self-governing regions, it accounts for two-thirds of the region's population.

It has become the envy of many cities seeking the same things – urban renewal, new-generation activities to replace lost factory jobs, a central function within a wide geographical zone.

Barcelona is a success story, an example of a city that has rediscovered its self-esteem, purposeful and proud of its recent revival, which Joan Clos, its mayor, insists is "not a flash in the pan".

A maritime power since the Middle Ages, and now one of the Mediterranean's chief commercial ports, it has always been subject to outside influences and felt European before most of the rest of Spain.

Since its 1992 summer Olympics this bilingual city – its citizens are as likely as not to use Catalan in ordinary conversation – has become much more widely known. The tree-lined Rambla (also known as Ramblas in the plural) is by now one of Europe's more familiar promenades. Tourism has doubled this decade, and US visitors now top the list. Barcelona's reputation has changed from shady to stylish, a city infatuated with design.

As a development model, Lord Rogers, the architect and chairman of the UK government's Urban Task Force, has described Barcelona as perhaps the most interesting example of urban regeneration in the western world today.

Clearance has taken place with little damage to the city's character. Sites once occupied by emblematic industries such as the manufacturers of trucks or railway rolling stock are now parks bearing their former occupiers' names. New zones are replacing derelict areas. And a population which had turned its back on the sea now goes to the beach by metro.

In a survey of 500 top executives by London-based property consultants Healey and Baker, Barcelona came top among 30 European cities in terms of quality of life for employees – ahead of Paris and Geneva – and in sixth place overall as a place to locate a business.

The lessons Barcelona has to offer lie partly in the extent of co-operation between public and private sectors, a structure of ad hoc mixed ventures which began with the Olympics and range from urban rehabilitation to tourism and the arts.

> **'Something's going wrong, it seems we have made a city more to be visited than lived in'**

To a large extent this is making a virtue of necessity. City authorities have for five years been trimming the debt – now about $1.6bn – which they ran up with the Olympics and which at one stage stood at twice the annual budget. "We have to be pretty good at managing resources," says Mr Clos.

Barcelona – the city itself, which has a population of 1.5m, in association with surrounding councils – is now *looking for a "second transformation"* over the next five years. In spite of $8bn worth of investment for the 1992 Games, infrastructure is still reckoned to lag behind Barcelona's stage of development as one of the European Union's half-dozen largest urban conglomerations.

Schemes on the drawing board include a high-speed rail link which Barcelona wants to bring to its airport and city centre in a project scheduled to connect with France in 2004. Then there are other rail networks, motorways, telecommunications and power projects, and airport and port expansion.

All are seen as essential to Barcelona's ambition of being the main economic hub and distribution centre for a whole region straddling the French border and rivalling the influence of Madrid and Lyons. Within a 300km radius, it will have access to a population of some 15m, including the citizens of Valencia, Zaragoza, Toulouse and Montpellier.

Part of the key to Barcelona's drive, Mr Clos believes, is a sense that it missed out in previous decades, creating "a certain collective determination" to ensure that it catches the European boat. "We had the feeling that nothing would be given to us," he says. "We didn't expect much help from outside."

Mr Clos, mayor for 18 months, has to defend his post in June, when municipal elections are held country-wide. In the two decades since democracy was restored in Spain, the Socialists – with local leaders from established Catalan families and an electorate mostly of non-Catalan migrant origin – have never lost their leadership in the city hall. And neither have centre-right Catalan nationalists been dislodged from the other wonderful historic building across the square in Barcelona, the seat of the Catalan regional government, the Generalitat.

A tower of strength: Barcelona has rediscovered its self-esteem and is enjoying a revival AP

Pasqual Maragall, the mayor for most of that period who is identified with the success of the Olympics, is running for the regional presidency later this year, attempting to oust the veteran Jordi Pujol. Mr Clos, promoted in his place at the town hall, is in turn being challenged by Joaquim Molins, a popular nationalist politician.

While he acknowledges Barcelona's achievements in recent years, Mr Molins questions its record in creating new jobs. The city has been losing its population rapidly – about 25,000 a year – and property prices have been going up.

From its beginnings in textiles, Barcelona has a solid manufacturing tradition. But what used to be its biggest industrial employer, the car company Seat, now part of Volkswagen, has cut back drastically and moved the bulk of its activity 30km away. Others have done the same.

However, greater Barcelona remains a centre for sectors such as vehicle components, consumer electronics, chemicals and pharmaceuticals research. The city has long been Spain's publishing capital, in rivalry with Madrid. It has seven universities, three internationally recognised business schools (including a post-graduate programme run by the University of Chicago) and five design schools.

Retevisión, the main pioneer of competition in the Spanish telephone business, set up its headquarters in Barcelona, saying it was a good place to recruit talent. Multinational industrial groups say Barcelona offers a reserve of skills and high-quality labour.

However, successive attempts to make Barcelona a financial centre have foundered. It does have a stock exchange and a bond derivatives market, but the first is increasingly marginal and the second languishing.

Joaquim Clusas, economic adviser at Barcelona Regional, a planning agency, says Madrid is an object of jealousy because of its strength in financial and company services and its claims on public investment.

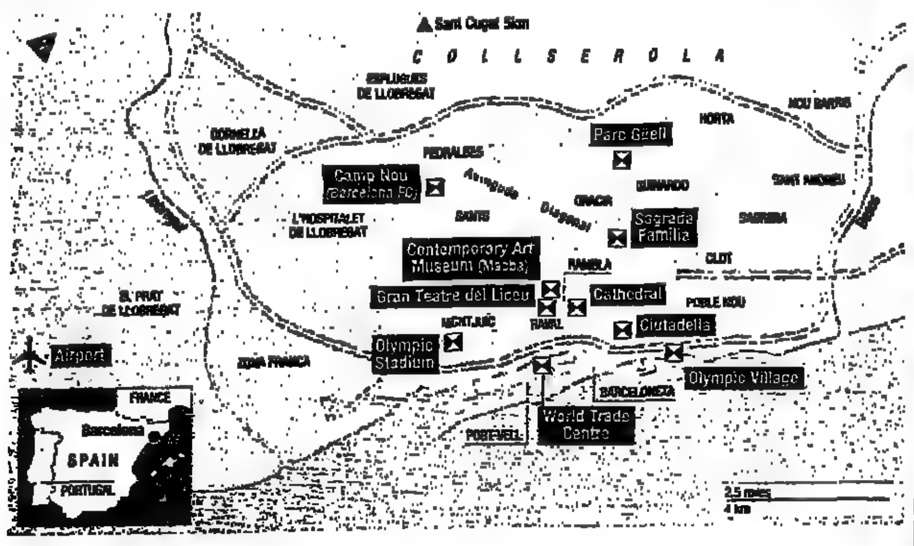
A fresh impetus for development is scheduled for 2004 – the Universal Forum of Cultures, a five-month combination of talking-shop and festival which is the first event of its kind backed by Unesco.

Jaume Sodupe, the Forum's commissioner, admits that the original idea was simply that "we had to do something". Since its Universal Exhibitions in 1888 and 1929, Barcelona has relied on big events to jump-start investment projects.

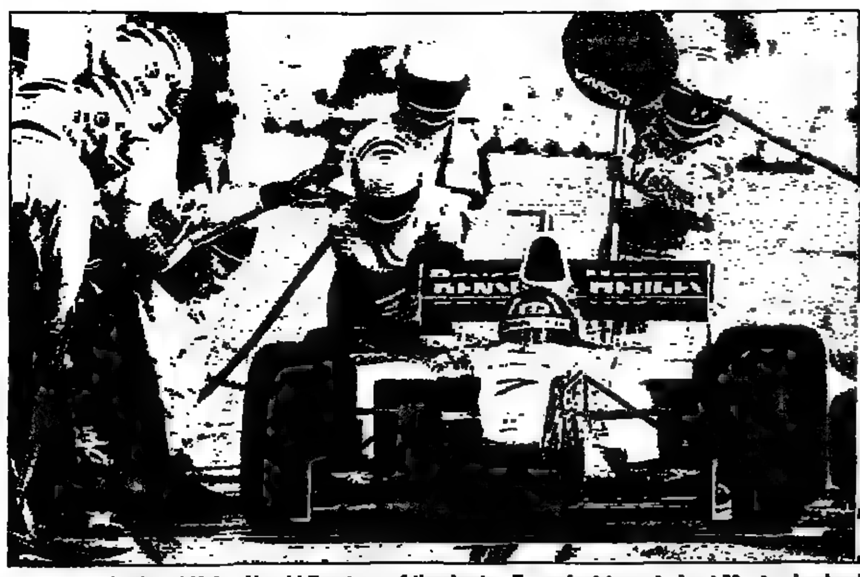
Novelist Eduardo Mendoza, in *City of Marvels*, describes Barcelona as a city that has experienced "years of splendour and opaque centuries." The novel, now being filmed, is the story of an opportunist's career at the turn of the last century and vividly portrays a defining epoch of Barcelona's history, in the middle of political ferment.

It was a heyday of building such as there had not been since the Gothic period, with the architectural extravagances of *modernisme*, Barcelona's version of *art nouveau*, and, above all, the extraordinary creations of Antoni Gaudí, a cross between the practical, the mystical and the playful which the city has taken as part of its identity.

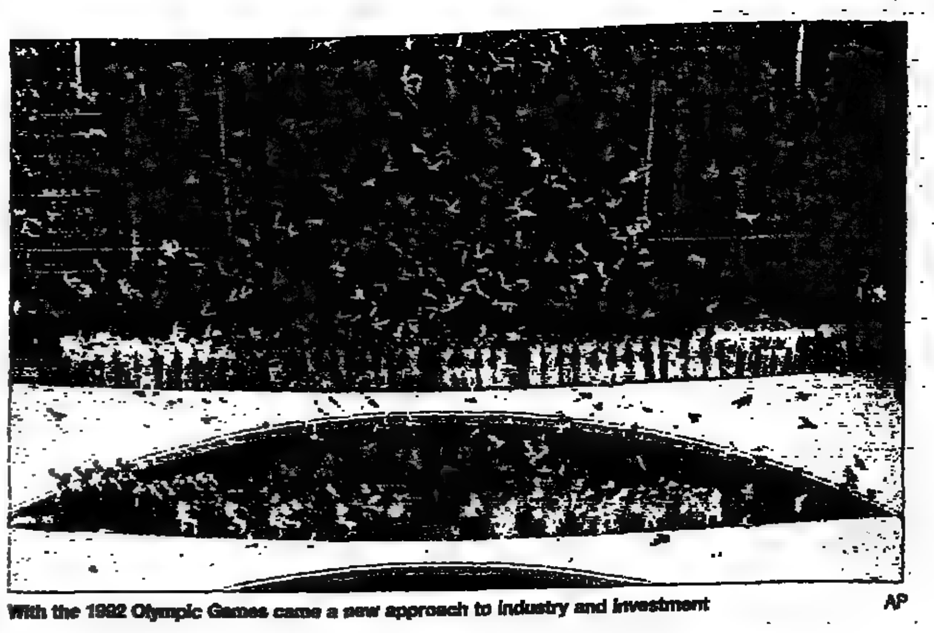
Barcelona wants to start the next century with as much energy as it did this one.



Savouring seafood: a salted cod stall at Santa Catalina market




Damon Hill (left) and Heinz-Harald Frentzen of the Jordan Formula-1 team train at Montmelo circuit last month. Round 5 of the Grand Prix will be held there on May 30 AP



With the 1992 Olympic Games came a new approach to industry and investment AP

INDUSTRY AND INVESTMENT by Tom Burns

Pro-active approach is the secret of city hall success

The 1992 Olympic Games altered perceptions about business and taught the local authorities key lessons in the drive to attract capital

Ten years ago Barcelona Activa, an agency funded by the city hall to promote industry and investment, installed itself in what used to be a primary school that had been set up by a factory at the turn of the century for the children of its employees. Within a decade, the decaying industrial estate in northern Barcelona has been transformed.

The factory's gigantic works plant is now an office complex and shopping centre. Its equally large warehouse is now a start-up centre or "nursery" for new businesses and it is Barcelona Activa's showpiece project.

More than 100 emerging companies whose business plans have been approved by Barcelona Activa occupy small offices in the former warehouse and use common meeting rooms and clerical facilities. The city hall's agency leases the nursery's cubicles at market rates for a maximum of three years and provides, if required, training and professional advice.

At the heart of this and other initiatives is a pro-active approach to industry and investment that Barcelona's local authorities have developed over the years and are constantly fine-tuning. Welcome to entrepreneurial officialdom and to what one Barcelona employer called the city hall's "complicity" with the private sector.

The 1992 Olympic Games, and the meticulous run-up to their celebration, altered perceptions about business across the board in addition to physically changing much of the city.

The Games taught the city hall at least two key lessons in its drive to attract capital. One involved a web of public and private sector partnerships that were initially created to ensure the success of the Olympics and extract maximum benefits for the city. The close relationship between the city hall and different business sectors has since been cemented and it embraces a range of activities including a venture capital firm.

With funds of Pta1bn, the venture capital firm is backed by 15 Barcelona private institutions as well as by the city hall which has put aside Pta250m for a 25 per cent stake.

The firm plans to invest between Pta10m and Pta50m in some 50 city-based small businesses and it is primarily interested in those operating in information technology and other innovative sectors.

Barcelona also learnt from the Games the value of a high-profile trade mark. The Olympics bestowed on the city an image of efficiency and quality life-style and this mix of profit and pleasure has since served Barcelona well in its efforts to drum up investments.

The city hall and private sector businesses have clubbed together to promote the Barcelona brand in specific areas where the city claims a competitive advantage. Some of these trademark ventures, such as the Barcelona Medical Centre which organises conventions and processes admissions to associated hospitals, were established in the run-up to the Games.

'We are constantly debating not what Barcelona is but what it could be – either Barcelona creates businesses and jobs or Barcelona ceases to be'

At the end of last year, a Pta14bn acquisition by the US company United Surgical Partners of the Institut Dexeus, a prestigious gynaecology clinic and research centre, illustrated the potential of Barcelona in the health sector. The city, which boasts a disproportionate number of specialised medical institutions, receives a growing volume of patients from elsewhere in Spain as well as from abroad.

United Surgical Partners is currently spending Pta10.5bn to expand a city hospital it acquired in the early 1990s.

More recent examples of branding Barcelona include a venture called the Mediterranean Diet Development Foundation which hosted its second Mediterranean Diet congress last year and which is backed by several large food and drink corporations located in Barcelona – agribusiness accounts for a high volume of the investment flow into the city.

The Foundation researches sensible and healthy eating habits based on Mediterranean foodstuffs.

Whether they are using the city's rich tradition in industrial, graphic and architectural design to promote Barcelona as a design centre or its recently acquired Olympic heritage to profile the city as a Sports Capital, Barcelona's public and private sector partnerships work overtime to sell the trademark.

Statistics suggest that the unceasing salesmanship is reaping rewards. Direct foreign investment in Barcelona last year totalled Pta906bn, 43.7 per cent up on the figure for 1997.

Branding Barcelona helped the city's greater metropolitan area to gain a 24.6 per cent share of total foreign investment in Spain last year, against 20.4 per cent in 1997.

The bulk of foreign investment was accounted for by the real estate business, which is unsurprising given Barcelona's ever constant urban renewal, and by the vehicle sector, a traditional capital-intensive activity which is based around the city's Nissan and Volkswagen-Seat plants.

A new investment surge is likely in the hotel and tourism-related sector. Overnight visitor stays in Barcelona rose by 37 per cent last year to 7.5m and the city's hotels registered 80 per cent occupancy. Arrivals at Barcelona airport were also well up on targets.

The city hall views these figures with satisfaction – the Barcelona brand name is drawing in the crowds – and also with alarm because it rightly believes that demand will outstrip supply and drive up prices. It is therefore studying proposals to boost available hotel space that are modelled on the hotel-building boom that it masterminded ahead of the Olympic Games.

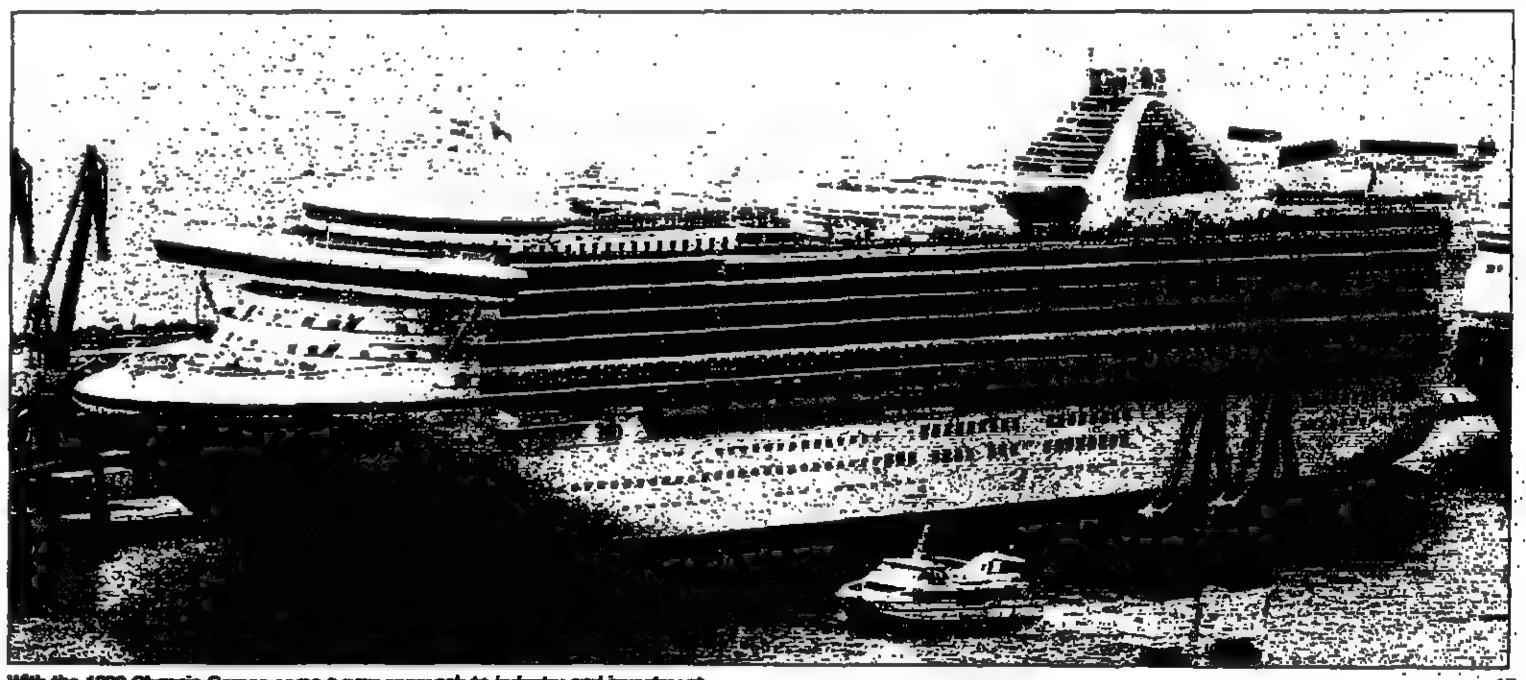
Another sense of where Barcelona is going as a serious area of enterprise and industrial activity is gained by visiting the business start-up nursery that is housed in the old factory warehouse where typewriters and other similarly obsolete consumer goods used to be stored in the building's previous incarnation.

The nascent businesses – Barcelona Activa has 1,600 on its books – make impressively productive use of information technology. As well as designing software and web sites, they appear to focus on providing more and more services for an increasingly wealthy and sophisticated population – for the ageing, for the very young and for those who follow every latest fad.

THE PORT by Jimmy Burns

Fresh confidence as the millennium approaches

Development and expansion programmes and new ports legislation make it easier for Barcelona to compete and meet the demands of both domestic and foreign trade



With the 1992 Olympic Games came a new approach to industry and investment AP

It is almost 100 years since Joan Maragall, Catalonia's most famous poet, bemoaned how Barcelona had lost a sense of its identity, turning away from the sea and inwards upon itself.

Now with the approach of a new millennium, the city is enthusiastically looking to the sea again, its status as one of the great Mediterranean ports re-established.

A new confidence is sweeping through local government about its ability to compete in the future thanks to continuing development and expansion programmes.

Joaquim Tosas, the port authority's president, believes Spain's new Ports Law, approved in December last year, has made it easier for Barcelona to react with speed and efficiency to the ever-changing demands of domestic and foreign trade.

The law scrapped the state holding company introduced by the socialist government five years earlier, and returned a large degree of autonomy to the leading port authorities around the country.

Although Barcelona still has to co-ordinate closely with Madrid on its development plans and funding, Mr Tosa – an appointee of the regional government – puts the emphasis on co-operation. The closing forecast of the 1998 financial year shows a fall of 0.69 per cent in total traffic (including ships' supplies and fishing), which in real terms means some 175,000 tonnes less that the previous year.

Bulk goods – specifically natural gas, potash, and cement – have pushed traffic statistics downwards, for short-term, structural reasons.

Nevertheless, general cargo, which brings in the greatest added value and income to the port, increased by 10 per cent, with a total of 12,899,00 tonnes moved. The port has for the first time ever exceeded the figure of 1m container units (TEU's) in one financial year.

'I think we all agree that the port plays too big a role in the economic development of the country to let politics interfere'

Imports increased by about 8 per cent, with exports experiencing a more modest increase of 2 per cent because of the effects of the Asian crisis. Vehicle traffic showed a significant increase of 22.6 per cent with 640,000 units moved in 1998.

The last year also saw a positive turnaround in the volume of passenger traffic, with the short ferry route to the Balearic islands experiencing a 16 per cent increase and cruise lines increasing by 32 per cent.

"Our only problem until now has been lack of space," says Mr Tosas. "But with our current 12-year strategic plan we're going to practically double in size and become a Mediterranean leader, competing not just with domestic rivals like Valencia but also with Marseilles and Genoa."

Mr Tosas puts great emphasis on Barcelona's conversion from a coastal traffic and fishing port – which it was in 1986 – to the top Mediterranean intermodal centre by the year 2011, trading with the Magreb, Israel, and the Far East, with particular expansion focused on China.

A key element in the port's development plan is the Delta Plan which changes the course of the Llobregat river at an estimated cost of between Pta400bn and Pta500bn. The plan will allow the port to gain 732ha of additional land, more than doubling it current area of 530ha.

The programmed expansion includes new quays and container, cruise, and multipurpose terminals and, crucially, a new rail station to take advantage of the introduction in 2004 of the European gauge which will mean goods unloaded at the port reaching European destinations faster, and therefore more competitively.

According to Mr Tosas, savings of $180 per container and three days transit time could be made on cargoes from Asia. Such estimates have fuelled closer co-operation between the ports of Barcelona, Genoa, and Marseilles, in pressing the European Union to invest more in transport infrastructure in southern Europe.

"We want to end the privileged status that northern ports have historically enjoyed partly because they have dominated policy and partly because many of them have been recipients of hidden subsidies," says Mr Tosas.

INFRASTRUCTURE by Tom Burns

Rival development visions pose a terminal problem

An increasingly bitter argument between the Catalan government and the Barcelona city council is unlikely to be resolved before the summer

The rivalry between the Generalitat, the Catalan government, and the Barcelona city council, which is where most of the region's inhabitants live and which accounts for the bulk of its wealth, is a fact of Catalonia's political life.

It is intensely coloured by the competing ambitions of the Socialist party, which has run the city hall since the first post-Franco municipal elections were held in 1979, and the Catalan nationalists whose evergreen founding father, Mr Jordi Pujol, won control of the restored Generalitat a year later.

In few areas of public policy is the rivalry more visible and the difference of opinion more pronounced than in infrastructure arrangements for the city. The two institutions, whose headquarters appropriately occupy opposing sides of the Plaça San Jaume, in the heart of old Barcelona's gothic quarter, have clashed in the past over the city's metro system and its ring roads.

The start of high-speed train services to Barcelona, which represents the biggest transport development since the city gained a proper airport in 1949, is now building up to become the biggest infrastructure battle to date. Within the next five years the train will link Catalonia to Madrid and to the French border. At stake is a crucially important issue: where should the high-speed train stop when it reaches Barcelona.

The Generalitat wants the high-speed train station to be built in San Cugat de Vallès, a one-time farming village well outside Barcelona's city centre that has transformed itself into an industrial park and one of the favoured sites of high-tech companies investing in the region. A toll motorway and tunnel through the mountain range that presses Barcelona against the Mediterranean has cut travel time between the city centre and San Cugat to 20 minutes

The city hall does not want a high-speed train station at San Cugat; it is determined that the railway terminal should be within the city's limits. It does not want Barcelona to be bypassed and, more to the point, it wants the high-speed train to be a catalyst for the urban renewal of the city's northern suburbs.

The increasingly bitter stand-off over the alternative locations is unlikely to be resolved one way or the other before the summer, and already it is clear that the two sides are arguing at cross-purposes about different priorities.

The quarrel centres on radically opposed conceptions of how a big infrastructure development, such as linkage to a high-speed train network, should best be utilised.The cost implications of one option and the other are hugely different and they highlight the disparity of the two platforms that have entered the debate. Should the new infrastructure serve Catalonia as a whole or ought it to primarily benefit Barcelona, the region's powerhouse, and avert the decline of its inner city?

A high-speed train station at San Cugat, skirting Barcelona, comes at a bargain basement price of some Pta3bn. Understandably it is the preferred location not just of the Generalitat, which has the larger Catalonia picture in mind and wants the project off the ground as soon as possible, but also of the development ministry in the Madrid central government which will be responsible for financing the high-speed network.

The inner-city location chosen by the Barcelona council would cost at least 15 times more than the San Cugat station and one commonly accepted figure for the eventual bill is Pta50bn. This is because the council wants a multi-functional high-speed train terminal that will be the focal point of an internodal transport complex.

The city hall's grand plan, called the Sagrera-Sant Andreu plan after the proposed location of the internodal complex, is to have the bullet train from Madrid entering south Barcelona near the airport, where it will stop, and then continuing underground to resurface near the city's northern limits.

The train's airport stop is vital to the ambition that Barcelona entertains to make the airport the most efficient and attractive hub in the north-western Mediterranean. More than 16m passengers – 1m more than in 1997 – used the airport last year and the rapid increase indicates that it will soon surpass the target of 18m passengers by 2002, the target total in the late 1980s when the airport underwent a big overhaul.

Barcelona's city hall has pressed for, and gained, approval for a third runway at the airport and more passenger terminals by 2004. It views the combination of a large airport, served by a high-speed train and close to an important sea port, as an irresistible combination for passenger and freight transport.

From the airport, the bullet train will travel beneath the city to emerge at the real jewel of the planned infrastructure crown: the Sagrera station or, as the city hall describes it, the Sagrera internodal complex. The complex, currently still on the drawing boards, aims to be a logistics and transport hub that will feed new ring road links and the city's bus and metro services as well as commuter trains and regional train services for other Catalonia destinations.

Barcelona has never done things by halves in the past and the Sagrera-Sant Andreu plan for the high-speed train belongs to the same tradition that used the 1992 Olympic Games and the requirement to house the event's athletes as an excuse to redevelop a swathe of decaying, industrial Barcelona.

The former Olympic village is now totally integrated with Barcelona and has given the city a seafront, beaches and marinas.

If the city's planners have their way, the high-speed train terminal at Sagrera-Sant Andreu, in what is at present an industrial wasteland, will be a rich source of jobs and provide an additional boost to a key neighbourhood of revamped Barcelona. It will be linked to a continuing big redevelopment in the Poble Nou area that adjoins the gleaming *Villa Olimpica*.

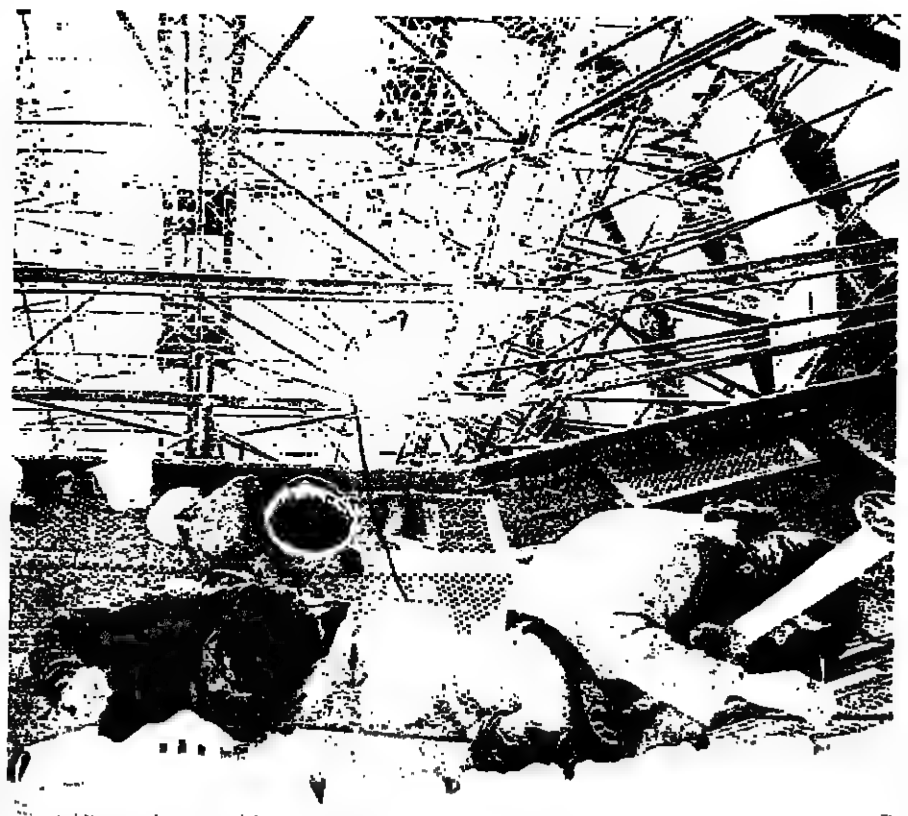
Nobody can accuse the city council of short-term policies and it is easy to admire its uncompromising awareness of the challenges that will eventually face the inner core of large urban areas if economic activities are allowed to move away to the suburbs.

Maravillas Rojo, Barcelona's deputy mayor and the Sagrera station's most eloquent promoter, says the project has become wholly and utterly necessary from the strategic point of view. "If we don't have an internodal station where we want it, inside Barcelona, the city's centre will collapse in 50 years time."

REBUILDING THE LICEU by David White

Rap music heralds Puccini's return to opera house

Barcelona's disaster-prone Gran Teatre del Liceu is rising from the ashes to resume its role as an emblematic institution and symbol of social prestige and cultural stature



Priority has been given to the public areas during reconstruction of the Liceu AP

Rap music blares through the upper reaches of the Gran Teatre del Liceu, Barcelona's opera house.

Faithful to their own choice of accompaniment, builders, upholsterers, decorators and electricians are racing to complete reconstruction by the summer. That will leave three months of trials before an emotion-charged resumption of performances in October.

The Liceu will begin again with the same Puccini opera, *Turandot*, that was being rehearsed when the building was destroyed by fire one late January morning five years ago.

The fire, which gutted the auditorium and stage and brought down the roof, provoked an immediate sentimental response. And now the rebuilt Liceu is set to regain its place as an emblematic institution, a symbol of social prestige and cultural stature, strategically located on the bustling Rambla, the city's quintessential thoroughfare.

The arts have long been a vital part of Barcelona's claim to international recognition: culture is reckoned to account for about 5 per cent of its economic output and theatre is arguably nowadays its liveliest facet.

Reconstruction of the Liceu has taken a year longer than planned, but has been pursued with determination while Venice's La Fenice, victim of a similar disaster three years ago, remains a ruin.

Barcelona's co-ordinated approach has managed to bypass the political and financial squabbling which has dogged other European opera houses such as London's Covent Garden or the Paris Bastille. It contrasts sharply with the vaudeville saga of delays, arguments and mishaps at Madrid's Teatro Real, which reopened for opera in 1997 after almost 10 years' closure and a long phase before that when it was used only as a concert hall.

The Liceu, previously under private ownership, has been converted into a publicly-owned theatre run in co-operation with private-sector sponsors. A third of the Pta15bn reconstruction cost is privately funded, with half coming from a combination of local, provincial, regional and central governments and the remainder from insurance companies, who made it a condition of payment that the building should be restored to its former use.

The fire five years ago was not the first catastrophe. Founded by a music school, the Barcelona Philharmonic and Dramatic Lyceum (thence the name), the opera house was inaugurated in 1847. It was wrecked by a first fire in 1861, but managed to open again two years later. Then in 1893 an anarchist bomb killed 20 of the audience during a performance of *William Tell*.

The Liceu was run by a proprietor company until the 1980s when public authorities took over the management. After the 1994 fire, the shareholders, who still retain seat rights, transferred ownership. More than 30 sponsors including banks, companies and broadcasters were brought in as minority partners in a foundation responsible for rebuilding and running the opera. In return for their contribution, they get publicity and rights to tickets and occasional private use of the premises.

Work, which got under way three years ago, ran into problems when it became necessary to build a deep underground wall to seal off the stage area from water.

Inside, the five-tier theatre is a near-replica of the old Liceu, with the same 2,300 capacity but improvements in lighting, acoustics, broadcasting facilities, comfort and safety, plus a new foyer and a greatly expanded stage section. The reconstruction involved the purchase of surrounding buildings and dislodging some 100 residents in order to more than double the size of the site.

The stage area, with computerised machinery, will now occupy most of the site, making the Liceu more like other big European opera houses and enabling it to put on as many as three alternating productions, increasing the number of performances, with different casts and at different prices and times.

"In some respects the Liceu is already a different theatre," says Josep Caminal, managing director. In the interim, the company has kept up a limited season at other sites, allowing it to lay claim to being Spain's only opera with an unbroken tradition.

Mr Caminal says the revival is marked by "an obsession for rational management". Targets covering both the budget and the artistic programme have been laid down in a four-year contract. The number of staff is to be limited to 275 including orchestra and chorus, compared with more than 420 at the time of the fire.

The aim is to keep subsidies – currently Pta3.15bn, or 63 per cent of the total annual budget – unchanged, except for inflation adjustments.

The *Turandot* production, by Núria Espert, actress and theatre director with Bertrand de Billy, the Liceu's new French music director, will not be an ambitious one, Mr Caminal admits.

For prudence's sake, few novelties are envisaged in the first year, with a limit of two productions running concurrently. The first season's programme includes eight operas and two ballets, with recitals in November by Montserrat Caballé, Marilyn Horne and Alfredo Kraus. Some midnight performances are planned in an attempt to win young audiences.

A few months ago, the gilt on the balconies could be glimpsed from the street through an opening. Mr Caminal says reconstruction has deliberately given priority to the public areas of the Liceu – to give people visible evidence that they are getting their opera back.

PROFILE
El PERIODICO DE CATALUNYA

A calm insight into reality of a bilingual society

In its constant battle to raise the linguistic ceiling, Catalonia's regional government is currently crossing swords with Hollywood moguls over its demand that more box office hits should be dubbed into Catalan, as well as Castilian Spanish.

For an altogether calmer insight into the reality of a bilingual society it is preferable to pick up the two daily issues that are published by Barcelona's best-selling daily newspaper, El Periódico de Catalunya.

Launched with a young staff in the post-Franco period when home rule was restored to Catalonia, El Periódico's achievement has been to draw level with La Vanguardia, the region's newspaper of record for more than a century and one of Spain's most admired journals.

If it has recently inched ahead of its powerful establishment rival, this is due to a bold editorial initiative that separately addresses both Catalan and Castilian Spanish readers whereas La Vanguardia prints only in Castilian.

The credit for this belongs in great part to Antonio Franco, one of El Periódico's founding journalists, who returned to the newspaper as editor in the early 1990s with a brief to narrow the gap on La Vanguardia. As he pondered over the challenge, be began to think about his daughter and rapidly came up with his dual edition idea.

His daughter belongs to the second intake of children in the region who started their schooling using Catalan as the educational vehicle. "She is 25 now and the point is that everyone under the age of 26 here has been taught in Catalan and that includes just about everyone studying journalism in Barcelona," says Mr Franco.

His hunch was that there would be an increasing demand for a Catalan language newspaper among what he calls the "most dynamic sectors of Barcelona, those we find in political, civic and cultural groups". El Periódico's newsroom was in any case linguistically schizophrenic: "Our editorial meetings and newsroom discussions were mostly conducted in Catalan but we all switched to Castilian Spanish when we got down to writing."

Since October last year, Mr Franco's daughter has been able to read El Periódico in Catalan. It is a sister edition, or more properly an identical twin edition, to the newspaper that her father had for some time been editing solely in Castilian Spanish.

Mr Franco says his idea has been vindicated. About 40 per cent of his readers now buy the Catalan edition of the newspaper and with combined daily sales of the two editions totalling some 220,000 – some 10,000 more than when it was printed only in Spanish – he believes El Periódico has edged ahead of La Vanguardia.

At Mr Franco's insistence, the Barcelona-based Grupo Zeta, Spain's third-biggest newspaper group, spent about Pta800m developing software that would translate from Castilian Spanish to Catalan for El Periódico, the group's flagship newspaper. This has eventually allowed El Periódico's journalists to write their stories in Castilian and, at the push of a word-processor button, have their words switched, into Catalan.

The translations are, however, not perfect and every evening 20 sub-editors who have studied Catalan philology descend on El Periódico's newsroom to give the Catalan edition a final polish. Their task is ensure that the second version of the newspaper is exactly the same as the first in style as well as in content.

Mr Franco is emphatic about the "sameness" of the two editions. Articles on bullfighting, which Catalans on the whole do not approve of, are printed in the Catalan edition just as reports about *castellers*, a festive Catalan event which involves young men standing on each other's shoulders to form a human tower, appear in the Castilian edition.

Stylistically, the Catalan edition reproduces the same punchy and crisp writing of the Spanish version. El Periódico's is not the only daily newspaper to be published in Catalan but it is the sole one to have gained what by Spanish standards ranks as a large readership.

Mr Franco says this is because it favours "accessible Catalan, the language that people speak in the streets" over the arcane vernacular of other publications.

The dual versions of El Periódico arguably provide the best evidence that Catalan has gained considerable ground in everyday usage on Castilian Spanish in Barcelona, as elsewhere in Catalonia.

This time next year, the newspaper's journalists will be writing in either Catalan or in Castilian, according to their preference, and the software will be able to translate each language into the other.

Mr Franco believes that the readership will soon be evenly split between the two editions, and it is reasonable to expect that, over time, the Catalan version will be the predominant one.

Tom Burns

URBAN DEVELOPMENT by David White

Olympic face-lifts brought brighter aspects to city

An entire shoreline sector will soon have been redesigned and Barcelona is once again extending its boundaries

Barcelona's history can be read on its map like the rings on a tree-trunk. The modern city shows the evidence less of continuous change than of intermittent, dramatic transformations.

The 1992 summer Olympics brought the most recent spurt of activity, a surgical facelift which brightened the city's whole physiognomy. A section of Mediterranean waterfront was rescued from oblivion – stretching from the old port, now devoted to leisure activities and a World Trade Centre under completion, to the harbour area built for the Games, where the neglected remnants of a Victorian industrial zone were cleared and Spain's oldest railway line was ripped out to create a new district.

Barcelona, which seemed almost to have forgotten it had a sea front, gained 4km of urban beach. A fresh impetus is now under way to finish the job of opening up the seafront further to the east.

Many of the projects put in motion for the Olympics were thought about for years but never implemented, says Xavier Casas, deputy mayor responsible for urban development. Plans for ring roads, for instance, had been around since the 1960s. And even then, not all the projects were carried through.

Bold planning initiatives go back a long way. A tongue of land known as Barceloneta next to the old port – a run-down area until recently – was developed in the middle of the 18th century to house people made homeless by the building of the Cuitadella fort, a symbol of Bourbon dominion.

The fort was later demolished and the site, now a park, used for Barcelona's Universal Exhibition in 1888. By then, radical change was well under way – a new inland city for a burgeoning bourgeoisie invading former military land beyond where the medieval walls used to be.

The building of the Eixample – "extension" – continued until about 1910, on an unrelentingly rectilinear street pattern, mollified by chamfered corners. Engineer Ildefons Cerdà's design was to Barcelona what Baron Haussmann's boulevards were to Paris.

It is perfectly described by Australian art critic and writer Robert Hughes in his comprehensive book *Barcelona*: "a grid layout of squares that encloses Barcelona's old city like a walnut in an enormous slab of stamped chocolate."

'A grid encloses Barcelona's old city like a walnut in a slab of chocolate'

One part of the Cerdà plan, however, is only now being put into place. A diagonal avenue – called just that, *Avinguda Diagonal* – which slashes across the gridiron pattern was meant to extend to the shore east of the city. Getting this done for 1992 proved too complicated because of rehousing requirements. But work began last year on a giant $800m private development in the area by the Houston-based Hines group.

The Diagonal Mar project, extending Barcelona's new Mediterranean frontage, is designed as an integrated residential, commercial and entertainment complex over 34ha, including a public park and a zone set aside for a congress hall. Building of the first stage of more than 1,600 residential units is due to start in April, with the whole project scheduled for completion by early 2001.

Jay Wyper, Hines' general manager in Spain, says 4,000 inquiries have been received even before the project goes on sale.

With plans for Barcelona's Universal Forum of Cultures in 2004 also in hand, this entire shoreline sector will have been redesigned.

The city is once again extending its boundaries, with ambitious schemes to remodel the two rivers which, with the hills behind and the sea in front, make a natural frame: the Llobregat to the west, being diverted to gain more port space, and the Besòs to the east, now more of an open sewer, scheduled for restoration.

This eastern area concentrates the worst aspects of Barcelona, which suffered unplanned growth around the 1960s as migrants poured in from other Spanish regions. The building of shoddy apartment blocks in the outskirts, often without proper roads, coincided with the impoverishment of some of the oldest quarters.

After long neglect, Mr Casas says about Pta120bn of public funds from a range of sources, including European Union grants, has been invested on housing and other facilities in the old city in the past 10 years, including Barcelona's Contemporary Art Museum (Macba).

A council-led venture, Cuitat Vella, covering 20 separate projects, is a prime example of the mixed "Barcelona model", based on partnership with banks, tradespeople and service industries.

Apart from conservation of the city's historic core, more drastic rehabilitation has been under way on the other side of the Rambla, the tree-lined avenue at the heart of Barcelona.

This dilapidated Raval district, once densely populated, lost 70 per cent of its inhabitants between 1960 and 1990, becoming a refuge for African and Latin American migrants and a hive of the heroin trade.

In the streets behind the rebuilt Liceu opera house, due to reopen this year, one can still just catch the flavour of what used to be the dark depths of the red light district known as the Chinese Quarter – the remains of a raffish, more secret Barcelona, now changing beyond recognition.

PROFILE
FOOTBALL CLUB BARCELONA

Barça purists ponder the price of success

Barcelona has invested in some of the world's best players including Rivaldo of Brazil AP

Anyone doubting the special status that Football Club Barcelona enjoys in the political, cultural, and economic life of the city would need to have been blind over the past year.

The club's centenary celebrations have included a whole range of mass activities from an Olympic-style sporting extravaganza in FC Barcelona's huge Camp Nou stadium (capacity 120,000) to an unprecedented 43-part documentary series devoted to the history of the club on prime time Catalan TV – all with the blessing and encouragement of the local regional government and elected mayor.

As one of the producers of the programme, Eduard Boet puts it: "In many ways the history of the club is inseparable from the history of Catalonia. A great thing about football, though, is that it makes politics accessible to a wider audience." It also makes a lot of money, he could add.

Barça as it is affectionately known locally, was formed in 1898 – the year the Spanish empire lost its last colonial outpost but when Catalan nationalism was poised for a revival.

Founded by a Swiss entrepreneur who had set up home in Barcelona, the club spread from its middle-class beginnings to become a mass movement with an underlying loyalty to the Catalan nationalist cause.

This sense of identity was fuelled during the dictatorship of General Primo de Rivera in the 1920s and later during the Franco years, when the football club survived as one of the few institutions in which Catalans could express their separateness from the rest of Spain.

Democracy has given Catalans cultural, political, and a large measure of economic freedom. But the club is still a bastion of collective sentiment, no more fanatically expressed than in bruising encounters with Real Madrid.

The rivalry not only has its roots in the past, but is also actively promoted for commercial reasons. Matches between the two represent one of the great events of the international football calendar, followed by dedicated fans around the world, and generating massive TV and sponsorship revenue.

"If Real Madrid did not exist we would have to invent it," Manolo Vazquez Montalban, the Catalan author, has commented.

According to a recent survey of the richest football clubs in the world published by Deloitte & Touche and FourFourTwo magazine, *Barça* has the edge on its historic rival in financial terms – Barcelona is second, and Real Madrid third in a table topped by the UK's Manchester United. Its annual turnover of £58.9m compares with Manchester United's £87.9m although *Barça* has managed to remain – as it has been since its foundation – owned by its members.

With average attendances exceeding 75,000, a current membership of 105,000, a loyal TV audience of more then 500,000, and a worldwide network of more than 1,200 fan clubs, *Barça* is the best supported football club in the world.

Josep Lluis Nuñez, the club's president, is world sport's longest surviving top man, having successfuly seen off attempts to topple him in membership elections periodically held since he took over in 1978.

Mr Nuñez, a construction magnate, replaced a somewhat benevolent if patriarchal style of management with a sharper if more ruthless administration, with the emphasis on maximising the club's economic potential.

In his 20 years in the hot seat, Mr Nuñez has presided over a massive expansion of the club membership – it stood at just 77,000 in 1978 – and in its annual revenue, from Pta817m to Pta14.9bn. Along the way, he has expanded the capacity of the Camp Nou, invested in some of the world's best players and managers – including Maradona, Cruyff, and Ronaldo – and become one of the most powerful figures in the city.

'The great thing about football though is that it makes politics more accessible to a wider audience'

The *Barça* membership has traditionally taken pride in its ownership of the club, doggedly refusing to be seduced by the stock exchange claiming that not to do so would risk losing a political and cultural identity to some intangible force. At the same time membership fees and season tickets have traditionally been kept relatively cheap compared to other Spanish clubs, in order to maintain a volume of support that in itself has ensured increasing commercial spin-offs.

The figures speak for themselves. Despite the growth in membership, the percentage of total revenue represented by members' fees and ticket sales has fallen from 87 per cent to 35 per cent since 1978. In recent years the big new source of revenue has been in the form of TV contracts, particularly lucrative whenever the club plays in European competitions, and essential in offsetting the cost of players which in the in the 1997-98 accounts are put at more than Pta7bn.

"Our strategy is to resist and respond to the increasingly competitive world of international football while preserving our identity as a club," says Jauma Pares, the club administrator.

The establishment of a semi-charitable foundation through which local private companies and institutions can channel funds to the club's social projects has helped the revenue side, as have a number of sponsorship and merchandising deals.

But the club's most ambitious project remains a Pta40bn project to convert the area surrounding the Camp Nou into a huge theme park and leisure centre to attract more than 7m visitors a year, more than double the number that currently visit the stadium and nearby museum.

Such plans worry the purists among the *Barça* membership, as does the fact that the team now has more Dutchmen and Brasilians than Catalans. Exactly what the price of success is remains a question that produces divisive debate.

Jimmy Burns

TOURISM by David White

Change of image has brought fame, fortune

Long gone are the days when Barcelona's hotels were deserted in August. Annual growth of 10-15 per cent is now forecast

Gaudí's architecture such as Parc Guell is a big drawcard 11

Barcelona used to be considered a grey city visited mostly by businessmen, promoting itself mainly as a place for industrial fairs and congresses, avoided by the sun-seekers beating a path to the Mediterranean coast.

But it has undergone a change of image since the 1980s, becoming one of Europe's most popular city destinations and doubling its number of visitors. Last year the visitors spent 7.5m hotel nights there compared with 3.8m in 1990. This year, the figure is expected to be 8m, and half as many again in five years.

"Barcelona is converting itself into a recreational nucleus – but also as a bridge to the rest of the Mediterranean," says Jordi Clos, owner of the stylish five-star Hotel Claris and four other hotels in the city. He recalls when business was mainly Monday to Friday and when August was deserted. "The city wasn't prepared for tourism," he says.

The 1992 Olympics made the difference, bringing fame and a big increase in capacity and facilities. But for three years afterwards, hoteliers could not fill the extra beds, and room rates plummeted. Mr Clos now anticipates growth of 10-15 per cent a year and believes prices will probably remain below those of big-city hotels elsewhere in Europe.

There is now a year-round turnover of visitors wanting to take in Barcelona culture, museums, architecture, restaurants and "atmosphere".

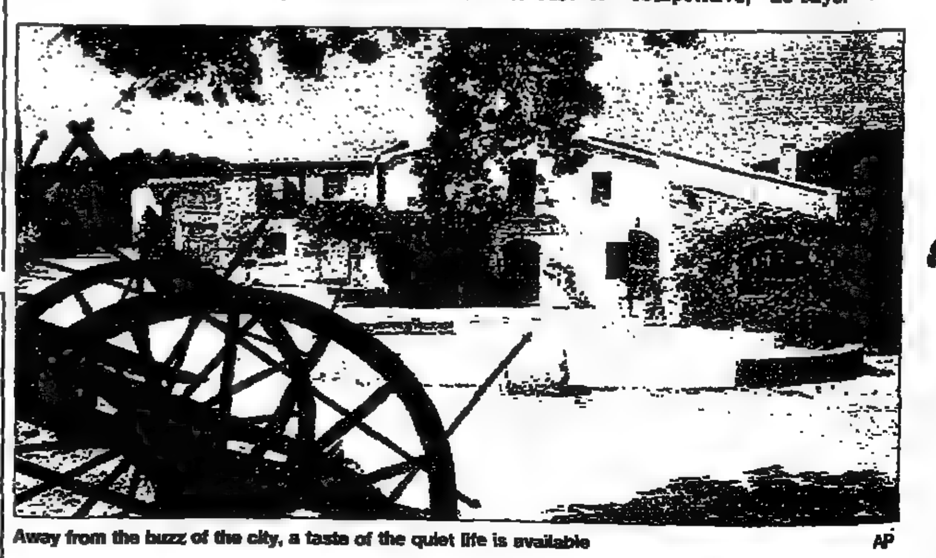
Promotion is carried out by Turisme de Barcelona, a consortium formed six years ago between the city council and the chamber of commerce. Raimon Martinez Fraile, its general manager, says that unlike similar ventures in a number of other European cities it now largely pays for itself, relying on subsidies for 37 per cent of its budget.

The consortium has made information offices into sources of income through foreign exchange bureaux, hotel reservations and souvenir sales. It charges for its maps. And its tourist bus stops only at sites which are willing to pay for the service.

Those that pay up include the Sagrada Familia cathedral – the termites'-nest-like structure which to the puzzlement of many Barcelona residents attracts more visitors than other Gaudí buildings – and the football club's museum, which ranks second only to the Picasso museum in popularity.

Barcelona's tourist market is distinct from the rest of Spain's. Britons and Germans dominate the overall Spanish figures. But Barcelona, which has become the principal Mediterranean cruise centre after Athens, now counts on the US as its chief source of foreign visitors. Russians, Japanese and Brazilians have also figured prominently – at least until all three countries were stricken by financial turmoil.

As well as maintaining its congress business, Barcelona has made a speciality of company staff incentive programmes. Mr Martinez Fraile says the euro will make its price advantage transparent against rivals such as Vienna and Amsterdam. "We are absolutely competitive," he says.



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Still struggling to define itself

The electorate's rejection last December of the administration's plans to seek full US statehood has left the territory's future status still open to debate. The focus now is on reforms aimed at expanding the service sector. **Richard Lapper** and **Canute James** report

Visitors to Puerto Rico are often surprised when they are welcomed to "the United States." Just over 100 years since it was ceded by Spain to the US, Puerto Rico is still struggling to define itself.

Last December, a majority of the island's predominantly Spanish-speaking electorate rejected plans to opt for full US statehood. Other options – including full independence – were even less popular, effectively leaving intact the island's "commonwealth" status – under which Puerto Ricans retain their US citizenship, enjoy their Latin American cultural identity but have only limited control over their own affairs.

The referendum was a setback for Pedro Rosselló, the governor, and his Partido Nuevo Progresista (PNP) administration. The governor had promoted statehood as a key element of his programme of economic diversification and modernisation since his election in 1992. Mr Rosselló says statehood – which would also need to overcome strong opposition in the US Congress – is required if the island is to "reach its full potential," reducing the gap in living standards which still separates it from the poorest US states.

"I believe our development is hindered by not being able to compete with the rest of the US. Historically, every territory that has become a state has markedly improved its economic parameters," he said. Taking encouragement from the fact that more Puerto Ricans voted for statehood than any other constitutional option, Mr Rosselló vows to press ahead with the campaign.

Puerto Rican debate about political status, always passionate if not convincing, tends to ignore the apparent lack of interest of US legislators who will be the ones to ultimately decide any change in the island's ties with the mainland.

Advocates of the status quo and of political independence contend that the island is a Latin American country, and that US congressmen do not want it as a state. Congressmen may want the issue to die; Puerto Rico's politicians intend to keep it alive.

The debate has led Puerto Rico to reduce once growing ties with its neighbours and concentrate only on the nature of its links with the US mainland. Unable to carry out its own foreign policy, Puerto Rico cannot fulfil the Caribbean destiny which was conceived by some of its leaders when its drive for industrialisation started about 50 years ago.

The island's participation in regional organisations involved in tourism, trade and development finance has to be approved by Washington. With Cuba increasingly being involved in these regional organisations, Washington prevents Puerto Rico's participation.

In the meantime, however, Mr Rosselló will continue to develop a programme of ambitious economic reforms.

The expected US decision three years ago to phase out over 10 years Section 936 of the US Internal Revenue Code, under which US companies investing in Puerto Rico did not pay tax on profits left in the island, has made necessary a change in the economic strategy, which has guided Puerto Rican development since the late 1940s. But government officials say that the longer-term decline in the productivity of the island's manufacturing base and the associated trend towards slower economic growth in the 1980s and 1990s would have made a change of policy necessary in any case.

The new policy is designed to increase the relative importance of the service sector, extend Puerto Rico's trade and investment ties, especially in Europe and Latin America, and increase the amount of high technology manufacturing on the island.

A new programme of tax incentives – launched early last year – is especially generous for companies investing in education, training, research and development. Puerto Rico has begun to privatise its utilities and loss-making government businesses as part of moves to improve its infrastructure.

Efforts are also being made to promote science and technology-based businesses. In part this will build on the established strength of the pharmaceuticals industry. Puerto Rico hosts manufacturing activities by some of the world's big pharmaceuticals companies and drugs such as tranquillisers and anti-depressants are its biggest exports.

At the same time, the government also aims to develop its health care sector around the newly privatised network of clinics and hospitals, as well as areas such as biotechnology. José Villamil of Estudios Técnicos, economic analysts, says the fact that US regulatory standards apply in these areas "gives us an edge in terms of clinical testing".

Carlos Vivoni, secretary for economic development, says the new strategy could have the same impact as "Operation Bootstrap", the tax incentive and government promotions introduced in the late 1940s that succeeded in industrialising an economy hitherto dominated by export agriculture. "We are undergoing our second major transformation, moving from an industrial to a knowledge-based economy."

The new policy has not been entirely successful. The government downplays the effect of the removal of Section 936, but jobs have been lost in manufacturing – mainly in the labour-intensive clothing sector.

Opposition politicians say that Mr Rosselló should have done more to preserve the Section 936 tax benefits and say that little has been achieved in terms of diversification of the economy.

Anibal Acevedo Vilá, a leader of the opposition Partido Popular Democrático says: "I don't see a model to replace the impact of manufacturing. There is no way the new model can make up for the jobs lost in manufacturing."

Puerto Rico is still heavily dependent on the US – more than 80 per cent of its exports are destined for the US market. Federal transfers and grants may be declining but they still form a significant cushion, allowing the government to bolster the economy through public spending projects and generous tax breaks.

On the other hand, Mr Rosselló can boast some impressive successes. The expansion of the tourism sector has been noteworthy with Puerto Rico now beginning to challenge established industry leaders in the Caribbean such as the Bahamas, and the Dominican Republic.

There is significant work being done to improve infrastructure services. The island's chronic water supply problems should end in about four years, following the privatisation of the management of the water company, while investments by several private power companies have removed fears of an electricity shortage.

Telecommunications and transport are also being expanded. It is still too early to judge the impact of the $2.1bn privatisation of the Puerto Rico Telephone Company last year, but shipping costs are said to have fallen by about a fifth since the privatisation of Navieras, the state-owned shipping company.

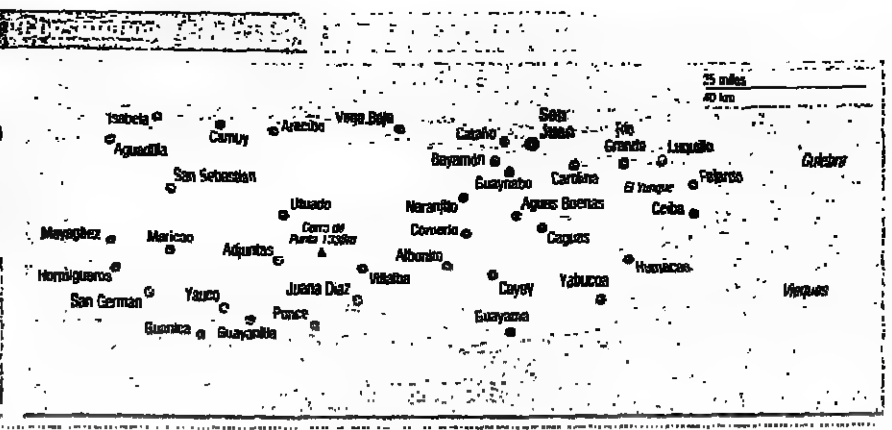
Although there is no sign that the pharmaceuticals companies that increasingly use Puerto Rico as a manufacturing base are rushing to conduct research and development on the island, one growing local company – Mova – has begun to do so.

"At this point it is too early to know what the long-term impact of the changes will be, but you couldn't continue with the old system," says Mr Villamil. "The new economic policy has identified the areas in which Puerto Rico had to become more viable. It has not been successful in motivating higher rates of growth but it has shifted attention to things that need doing. Its success has been in shifting the way the government and the private sector look at the economy. This has made a major difference." As Mr Vivoni concedes, change will not happen overnight. "Operation Bootstrap took a good decade or two to happen."

Fact file

- Area: 8,897 sq km
- Languages: Spanish and English
- Currency: US dollar
- Population: 3.8 million (1999 estimate)
- Main towns & population (mid 1996)

San Juan (capital)	434,000
Bayamón	232,000
Ponce	190,000
Carolina	189,000



Constitution

- Official name: Commonwealth of Puerto Rico
- Form of government: US-style representative system
- Head of state: Elected governor, currently Pedro J Rossello
- The executive: A governor is elected every four years and appoints, with the approval of the Legislative Assembly, secretaries of departments to administer executive power
- National legislature: Bicameral Legislative Assembly; the Senate has 27 members, two for each of the eight districts and 11 elected from the Commonwealth as a whole; the House of Representatives has 51 members, one for each of the 40 representative districts and 11 from the Commonwealth as a whole
- Legal system: US-style court system operating within the Commonwealth, with the island also operating as a US district with justices appointed by the president of the US. Although it is a US-style court system, it is based not on common law but on the Napoleonic Code
- National elections: November 5 1996; next election due by November 2000
- National government: The Partido Nuevo Progresista holds two-thirds of the seats in the Senate and the House of Representatives
- Main political organisations: Government - Partido Nuevo Progresista (PNP); Opposition - Partido Popular Democrático (PPD); Partido Independentista Puertorriqueño (PIP); Extra-parliamentary opposition - Nuevo Movimiento Independentista (NMI); Congreso Hostosiano

Economic summary

	1997	1998	1999 (forecasts)
Total GNP ($bn)	32.1	34.1	36.3
Real GNP growth (annual % change)	3.2	2.5	2.8
GNP per head ($)	8,534	8,987	9,455
Inflation (annual % change in CPI)	5.5	5.9	4.2
Unemployment rate (% of workforce)	13.1	13.1	13.2
Merchandise exports ($bn) [1]	23.9	30.3	n/a
Merchandise imports ($bn) [1]	21.4	21.8	n/a
Trade balance ($bn) [1]	2.5	8.5	n/a
Tourist arrivals (million)	3.2	3.4	3.7
Tourist spending ($bn)	1.9	2.0	2.2
Hotel occupancy rate (%)	73.3	72.5	71.8

Main trading partners (share of total trade to world 1996/97)

Sources: Puerto Rico government; Economist Intelligence Unit

[1] Fiscal years (July-June)

TRADE BRIDGE by Canute James

Proposal is regarded as a challenge and opportunity

Puerto Rico is hoping to transform itself into a 'trade bridge' between North and South America, and between the Americas and Europe

The proposed Free Trade Area of the Americas, to be created in 2005, is regarded by Puerto Rico's administrators as both a challenge and an opportunity. The island will face competition for markets in the US from the members of the free trade area, many of which could be more competitive because of lower production costs. Carlos Vivoni, secretary of state for economic development and commerce, prefers to see this as a chance for the island to play a key economic role. "There are 34 countries which will create the Free Trade Area of the Americas in 2005, and this will create an opportunity for Puerto Rico," he said.

With $3bn being spent on improvements to its infrastructure, Puerto Rico is hoping to transform itself into a "trade bridge" between North and South America, and between the Americas and Europe. The island's ports and airports are being improved, and officials says that with its geographical location, the island will be a natural hub for trade in goods and services between North and South America.

Puerto Rico's administration has opened offices in several Latin American countries, including Brazil, Argentina and Mexico in an effort to attract business. "Puerto Rico can be important in the development of trade in the hemisphere not only because it has the infrastructure and the transportation links, but also both Spanish and English, which are the two most widely used languages in the hemisphere, are spoken in this island," Mr Vivoni said.

The Free Trade Area of the Americas will be a trade bloc with 800m people and with commerce valued at about $10,000bn. Mr Vivoni said that the government's efforts to diversify the economy, reducing dependence on manufacturing, and developing a range of services, will allow Puerto Rico to take advantage of all sectors of the expended hemispheric market.

Aníbal Acevedo Vilá, president of the opposition Popular Democratic party, agreed that the island had several advantages in trying to position itself as a commercial centre in the Americas. "Puerto Rico can be a trade hub in the Americas, although we have lost some momentum in achieving this. Latin America can do business here because Spanish is spoken, and the island can make much of the fact that it is not part of the US tax structure."

The island will face competition in this drive to be the centre of hemispheric trade, said José Villamil, one of Puerto Rico's leading economists.

Its location is not the most appropriate in terms of shipping between North and South America, and it has already lost some advantage to other centres such as Miami.

"But this island can be a key hub in the development of regional services such as health, construction and financial services, but not in transshipment," Mr Villamil suggested.

The government does not see Puerto Rico attempting to displace existing trade centres such as Miami, but instead making use of increased trade in the hemisphere, explained Mr Vivoni.

"Other locations such as Miami are operating at full capacity, and incremental business will have to find other locations," he said.

"The plan is not to displace other gateways, but to make use of an increase in trade between North America and South America. We have very good communications by sea and air to both North America and South America."

THE ECONOMY by Richard Lapper

Recovering from Georges

There have even been suggestions that the economy might benefit from last year's hurricane

Many of its neighbours in the Caribbean and Central America were devastated last year by powerful hurricanes. But Puerto Rico is recovering rapidly from Hurricane Georges – the worst disaster in its modern history.

Four months after 110mph winds tore through the centre of the island, the effects are barely noticeable.

The El Yunque rainforest which was turned brown after the disaster "is now lush and green", says Pedro Rosselló, the governor.

He says: "There has been a fast turnover by nature. The recovery has been fast and in some respects remarkable. Essentially, everything is back to normal and in some cases supernormal levels."

Puerto Rico's resilience reflects both the growing sophistication of its economy and its close relationship with the US. The island's agricultural sector – like that of the Dominican Republic, Nicaragua and Honduras – was badly disrupted by the hurricane, with losses amounting to $300m.

But although farming is still the dominant economic activity in much of the region it accounts for only 1 per cent of gross domestic output in Puerto Rico.

Roads and bridges were destroyed and tourism was hit. But the extent of the damage there pales in comparison with that caused by Hurricane Mitch in Honduras.

"There was damage to infrastructure but nothing that impaired people's ability to travel round the island," says Carlos Vivoni, secretary for economic development and commerce. And recovery has been rapid.

Although the winds damaged power lines and left Puerto Rico without electricity, two-thirds of the electricity system was working within two days of the storm.

Although 40 per cent of hotel rooms were damaged by the hurricane, most had been repaired by the beginning of this year, with the sector functioning at 90 per cent of capacity.

Manufacturing – which now accounts for some 40 per cent of gross domestic product – was largely unaffected.

"There was some damage to roofs and fences, says Carlos Vivoni, "but machinery and equipment were basically unaffected and that allowed for a quick start-up of production once electricity supplies were restored."

In addition, the relatively high level of insurance coverage and access to help from US federal agencies has meant that capital to fund reconstruction has been flooding into the island.

Puerto Rico can draw on support from four federal agencies – the Federal Emergency Management Agency, the Small Business Administration, the Department of Agriculture and the Department of Housing and Urban Development.

Increased activity in construction could boost growth to as much as 3.5%

Insurance and reinsurance is expected to cover up to $1.7bn of the island's losses.

Indeed, there have been suggestions that the hurricane could actually benefit the economy: increased activity in construction could boost growth to as much as 3.5 per cent in the fiscal year to June 30, 1999, compared to an estimated 3.1 per cent last year.

Last year, construction expanded by 15.6 per cent, partly as a product of ambitious government-financed schemes.

Mr Vivoni suggests that reconstruction activity could cushion any negative effects stemming from a possible slowdown in the US.

Before the hurricane struck, the government had expected growth to slow to between 2.8 per cent and 2.9 per cent.

In any event, low US interest rates and cheap oil will also help Puerto Rico this year. Because Puerto Rico's electricity generators are all oil-fuelled, the country is particularly well placed to benefit from the fall in the international oil price.

The ease with which Puerto Rico has recovered from the hurricane has allowed the government to quickly refocus on its longer-term plans to diversify the economy away from relatively low-tech manufacturing towards a much broader base of high-tech and services.

The elimination of the US Inland Revenue service's Section 936 – which allowed US corporations investing in Puerto Rico not to pay tax on profits left on the island – is one of the factors that stimulated Governor Rosselló to introduce a new policy.

In addition, though, there was increasing official concern about the slowdown in the rate of growth from an average of 6 per cent in the 1960s and 1970s to only about 2-3 per cent during the 1990s.

Already, there are some signs that manufacturers are leaving the island as a result of the end of the tax incentive.

Some 9,000 jobs have been lost in the garments sector since the early 1990s.

But new tax incentives were introduced early in 1998 and there are signs that the island is attracting some new European investments.

Jaime Morgan-Stubbe, executive director of the Puerto Rico Industrial Development Company, says that at least 2,000 new jobs were created last year as a result of new investments. He says he is in negotiations concerning a further 12 developments which could bring between $500m and $800m in new investment to the island.

Puerto Rico's labour stability, as well as low labour costs, is an attraction for European investors, says Mr Morgan-Stubbe. Only about 6 per cent of the labour force are members of trade unions, compared with 20 per cent in the 1970s.

"This is attractive to European companies who have become used to hyperactive unions," he says.

BEYOND SECTION 936 by Canute James

New regime to target mainland companies

A fresh tax structure aims to attract businesses and encourage existing investors to expand

The decision of the US government to phase out the tax incentives which attracted mainland companies to Puerto Rico, and which stimulated rapid expansion of manufacturing, has led the island's administration to implement a new corporate tax regime aimed at retaining such companies and attracting new ones.

The incentives under Section 936 of the Internal Revenue Code helped to transform Puerto Rico into a manufacturing economy, but over 10 years to 2005 Washington is reducing the benefits which allowed income tax and wage credits for subsidiaries of US companies operating in the island. Interest earned on income is also tax-free. These funds, amounting to several billion dollars, have underwritten the island's financial stability and the incentives attracted hundreds of companies, particularly in pharmaceuticals and electronics.

"This is an economy in transition as we cannot depend any more solely on admittedly successful manufacturing," said Pedro Rosselló, the governor. "Future growth for Puerto Rico is not in manufacturing, but in services."

The new regime is reducing corporate taxes in an effort to stimulate the economy by encouraging investment in research and development, job training and upgrading of operations, facilities or machinery. Corporate tax for qualified businesses has been cut from 14.5 per cent to 7 per cent. Further reductions to as low as 2 per cent are offered, depending on the number of jobs created and the investment being made.

Taxes on distributed dividends have been eliminated and companies can now enjoy a 200 per cent deduction for research and development and job training costs. Government officials say they expect the new incentives to double the pace of economic growth from the current average rate of about 3.5 per cent a year.

The new regime also favours traditional labour-intensive industries such as textiles, clothing, leather goods and fish canning. These qualify for a maximum 4 per cent tax rate, which can be further reduced to 2 per cent.

The new tax structure is already attracting businesses and encouraging existing investors to expand, says Jaime Morgan-Stubbe, executive director of the Puerto Rico Industrial Development Company. "There has been some expansion in manufacturing since the start of the phase-out of Section 936. There have been several major investments and expansion. Three of these are valued at $400m. There are 12 others in the pipeline with a combined value of between $500m and $800m."

Aníbal Acevedo Vilá, president of the opposition Popular Democratic party, is not convinced that the changes expected from the new incentives will bring the economic rewards which the government is anticipating. Encouraging the expansion of services is good, he says, but the new arrangements cannot make up for losses suffered with the start of the phase-out of the benefits from Section 936.

"The new arrangements cannot replace the value of manufacturing to the economy. In the economic reality of Puerto Rico, services will never make up for jobs lost in manufacturing." There is need for diversification, but not at the expense of manufacturing, argues Mr Acevedo Vilá.

José Villamil, one of the island's leading economists, says: "The new tax regime can compensate for any losses from Section 936. But it will take a few years for the new measures to be reflected in economic performance.

"One positive element in the new regime is that it gives rewards for research and development."

The longer-term purpose of the new incentives is to prepare Puerto Rico for competition from other regional economies which are targeting the US, such as Mexico.

"Countries like Mexico are improving their industrial infrastructure, and there are new areas being identified for Puerto Rico which we need to exploit," said Mr Morgan-Stubbe.

"These incentives are the foundation for staying ahead."

BANKING by Richard Lapper

Deregulation paves the way for rapid expansion

The end of Section 936 incentives, far from being a disaster, looks like being a relatively smooth transition

The abolition of the tax incentives that have persuaded some of the United States' biggest corporations to leave their profits in Puerto Rico could have proved disastrous to the island's financial system. But Puerto Rican banks have not only survived the end of so-called Section 936, they are prospering as never before.

Deregulation and the adoption of new technologies, combined with a wave of mergers and acquisitions in the sector, have paved the way for rapid expansion, with growth of the domestic deposit base and new funding on the capital markets more than making up for the gradual decline in the 936 deposits.

"Some people predicted a meltdown in 1996 but that was utterly absurd," says Joseph O'Neill, the commissioner of financial institutions. "It is going to be a relatively smooth transition."

Under 936, US corporations operating in Puerto Rico were exempted from paying tax on profits earned on the island. In addition once money was deposited in the local financial system, any interest earnings were also free from federal tax, under a provision known as qualified possession source investment income (qpsii).

Even though such deposits typically earned interest at a rate of about a fifth of a percentage point below the London Inter-Bank Borrowing Rate (Libor), the incentive was enough to swell bank liquidity, with so-called 936 funds in the commercial banking system amounting to $5.3bn in 1994.

Since then, these deposits have shrunk by about $2.2bn and are expected to decline further. But at the same time, overall bank deposits have grown.

According to the commission, commercial bank deposits reached about $25.8bn at the end of September last year (the latest date for which figures are available), compared to $22.4bn in June 1994. Bank assets have also continued to expand, reaching $38.7bn at the end of September 1997, and bank profitability has also risen, with net income (profits) rising by $330.2m in June 1997, compared to $293.3m in June 1996 and $251.6m in June 1995.

The steady expansion in Puerto Rico's economy is one explanation. Since the 1980s, the island's economy has been growing at a slower pace than in the 1960s and 1970s. Even so, growth in the past five years has been slightly faster than that of the mainland US economy.

Low interest rates – Puerto Rican rates are essentially the same as in the US – have also helped, encouraging borrowing by both retail and commercial customers. Last year, for example, new commercial and residential mortgage loans increased to $3.8bn by the end of September, compared to $3.2bn for the whole of 1997.

New local tax incentives – introduced at the beginning of last year – and a new federal incentive known as Section 30 due to expire in 2005 – have partly compensated for the loss of the 936 provision.

In addition, financial deregulation and a wave of consolidation in the industry has improved operating conditions. The island's authorities have introduced a new, more streamlined, supervisory framework that increases the minimum capital requirements for banks operating on the island but at the same time gives bank management and directors more room to manoeuvre. New rules designed to strengthen the local capital market increase the range of financial assets available to banks.

Partly as a result of fresh competitive pressures unleashed by deregulation, a number of banks have sought to grow through acquisition.

Banco Bilbao Vizcaya (BBV) and Banco Santander of Spain have been particularly active, while the locally owned Banco Popular has made a number of purchases. During 1996, Santander bought the local operations of Banco Central Hispano, another Spanish bank (with which it has subsequently merged).

Last year, BBV bought Ponce Bank and has taken over the business of Chase Manhattan, which closed its Puerto Rican operations last October. Banco Popular alone controls more than 36 per cent of total deposits, while between them the top four banks control more than 60 per cent of deposits.

Privatisation receipts will repair the damage to infrastructure AP

INFRASTRUCTURE by Canute James

Widespread spending will address years of neglect

Water, power, public transport, ports, airports and roads are all being upgraded

Puerto Ricans are about to get relief from a painful and perennial problem: a shortage of water.

For long periods in recent summers, hundreds of thousands of people have had to do without water for long periods. The chronic shortage often leads to rationing in many areas. Now relief is coming from two sources. First, the management of the Aqueduct and Sewer Authority (Prasa) is being privatised this month, promising improved services for the company's clients. And secondly, the island's water management system is being improved as part of a programme costing billions of dollars to upgrade all of Puerto Rico's infrastructure.

The improvements to the water system are being made with money which the government is getting from the privatisation of the telephone company.

The island has a deficit of 25m gallons a day, but the work which is being done on the water system is expected to lead to a daily surplus of 15m gallons by 2002, with another 15m gallons a day available by 2004.

Prasa operations are being managed under a three-year $375m contract by Professional Services Group, a subsidiary of Générale des Eaux of France which is owned by the Vivendi Group with headquarters in Paris. PSG says it will operate Prasa as a private company, and hopes to reduce the volume of consumer complaints about poor service which has been the bane of Prasa.

The island's north coast, including San Juan, the capital, will benefit from the construction of a "super aqueduct" with a main line and distribution systems which could cost about $800m. Thames-Dick Super Aqueduct Partners, a consortium of Thames Water International of London, and Dick Corporation of Pittsburgh, US, is constructing a 40-mile aqueduct on the north coast, costing $345m. This should be completed by the middle of this year, and the government's Infrastructure Financing Authority (Afi) will finance the completion of distribution systems.

The San Juan area of the north coast will also benefit from the dredging of Lake Carraizo, the main source of water for the area. About $60m is being spent to remove 5.5m cu m of sediment from the lake, to increase its capacity. Improving water supplies appears to be the most urgent aspect of the $3bn which was spent last year to improve Puerto Rico's infrastructure, all of which is being overseen Afi. Improvements are also under way on electricity, public transport, airports, seaports and roads.

"The concentration on infrastructure follows several years of neglect," said José Villamil, one of the island's leading economists. "There have been concerns about water and power, and other areas of infrastructure which need help, such as the port of San Juan."

The Electric Power Authority is spending $1.9bn over the next four years to significantly improve generating, transmission and distribution infrastructure to ensure there is adequate power to meet future demand.

Preparing for the worst: San Juan residents stock up with water AP

While the island's roads are being extended, the government is hoping to overcome chronic traffic problems in San Juan with the construction of an urban railway. The system is 30 per cent complete and the first test vehicle run is expected in November. Construction of eight of the 16 stations will start by the end of this year, and the system will be completed in 2002.

The upgrading of the island's infrastructure is intended also to support the government's plan to make Puerto Rico more attractive as a location for business from the US, Europe and Latin America, and to improve the territory's chances of becoming a "trade bridge" between North America and South America.

The Puerto Rico Telephone Company, which is being privatised to a consortium led by GTE of the US, is also to upgrade its facilities. Carmen Culpeper, president of PRTC, said: "The telecommunications infrastructure base will have to be continuously upgraded. Construction is growing and increasing demand, in addition to which we have to go underground to make the system as hurricane-proof as possible."

ELECTRICITY by Canute James

Co-generation may be key to avoiding power deficit

Supply contracts with independent producers will help the island cope with the need for additional power

Fearing a power deficit in the next five years caused by expansion of the economy, Puerto Rico is depending on investments of $1.9bn to provide adequate electricity.

Demand is growing at 3.5 per cent a year, the same rate as the economy. However, if the administration's plan to double the rate of economic expansion is successful, the island will need additional power.

Several plants are under construction and will be commissioned by 2002, adding significantly to the generating capacity of the government-owned Electric Power Authority (Prepa). Additional capacity is also being provided through the refurbishing of some of the company's power stations.

"Prepa is the second-largest public utility in the US, with 1.3m clients," says Angel Rivera, deputy director. "Its generating capacity currently is 4,400MW and peak demand is 3,057MW.

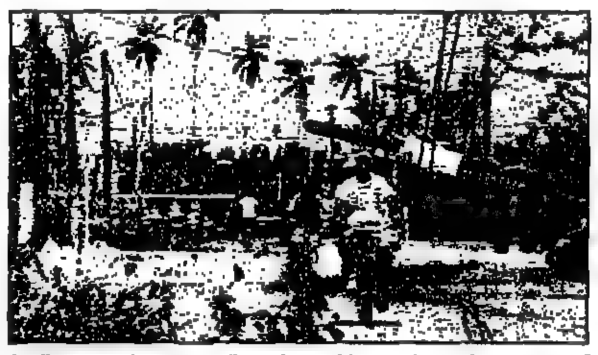
"There was adequate capacity last year, but we are below the level of reserve capacity which is necessary to maintain the quality of service we want to have."

In expanding generating capacity, Prepa has decided not to build any more power stations, but to seek co-generation agreements through supply contracts with independent power producers.

The prospects for avoiding a power deficit have improved with the decision by local courts to approve the construction of a controversial coal-fired plant. The $700m station, proposed by Applied Energy Systems of the US, and with a planned capacity of 413MW, was blocked when environmentalists obtained a court injunction based on a contention that it would be harmful to the environment.

"The court has given permission for the construction of the plant and we are hoping this will start by June with completion expected in 24 to 30 months," said Mr Rivera. "It will use a process which will meet all environmental considerations."

This will follow the expected commissioning later this year of a 507MW plant constructed by Enron and Kennetech of the US. At a cost of



Cyclists negotiate power lines downed by Hurricane Georges AP

$800m, the station will be fired by liquefied natural gas imported from Trinidad and Tobago.

The last plant which Prepa constructed was the Cambalache station with an output of 248MW, built by Brown Boveri of Switzerland, and which was switched into the national grid last year.

"The advantage of co-generation for Prepa is that the company will not have to find the money to build a plant," said Mr Rivera. "In addition, the companies have an obligation to perform. These additions to capacity will give us the minimum 40 per cent of reserve which we need to meet all contingencies."

Investments in the energy sector include $220m which Prepa is spending to repower some of its older power stations in San Juan, the capital. Two small generators with combined output of 88MW, and which have ended their lifespans are being rehabilitated to a rated capacity of 464MW. This will be completed by the end of 2001.

With all these projects, Prepa will not need any increase in capacity until 2007. If demand increases beyond projected levels before then, the company will repower other ageing stations.

Local and foreign investors have been trying to engage Prepa in discussing supply contracts from less conventional sources of power. The company has been approached about ocean thermal energy conversion plants, but Mr Rivera says the technology is not adequately developed, and will not be considered for another 25 years.

There appears to be better prospects for power from waste-to-energy plants. The island's Solid Waste Management Authority has set conditions for the construction and operation of these power stations, under a 30-year plan for the disposal and recycling of solid waste.

One prospective investor has proposed a $200m plant which would consume 2,000 tonnes of waste daily and produce 50MW. Another has suggested a plant costing twice as much, but which will accept 3,300 tonnes daily of a wider range of waste, and produce 72MW. "The key to the viability of these waste-to-energy stations is whether they can deliver power at a competitive price," says Mr Rivera. "They are likely to be expensive sources of energy, particularly when oil prices are low."

The company is completing its recovery from Hurricane Georges which hit the island at the end of September. Storm damage, mainly to transmission and distribution infrastructure, is estimated at $200m, but 90 per cent of this will be covered by the Federal Emergency Management Agency. This will allow Prepa to contain the cost of power delivered to its clients, says Mr Rivera.

"Our costs are competitive, but it all depends on the cost of oil. We now compare favourably with the US east coast which is between six cents and seven cents per kWh. If oil prices go up we can reach 10 cents per kWh."

PRIVATISATION by Richard Lapper

Sell-off sets pace despite late leap on to bandwagon

Privatisation may have started later than elsewhere in Latin America, but its scope is much more comprehensive than in other countries

Puerto Rico was late to join Latin America's privatisation bandwagon, but in some respects the island's sell-off is proving to be one of the most far-reaching on the continent.

Puerto Rico has disposed of a number of loss-making manufacturing and service ventures and last year became the latest country in the region to sell its state-owned telephone company, when a consortium led by GTE of the US paid more than $2bn for a 51 per cent stake. But the government's programme has also involved the sale of clinics, hospitals and prisons.

Two US corporations are involved in the administration of the island's prison system, while the government aims to complete the sale of the island's network of 84 clinics and hospitals later this year.

In a society where the government has intervened in the economy – with a good deal of success – since the late 1940s, the policy has been controversial. The privatisation of Puerto Rico Telephone Company (PRTC) was blocked by trades unions in the early 1990s and the actual sale triggered a 41-day strike last year.

The opposition Partido Popular Democrático (PPD) says that the PRTC and some hotels were sold too cheaply and is particularly critical of the health service sales. "They are dismantling what it took 40 years to build and we will create in Puerto Rico what they are suffering in the United States. It is a bombshell," says Aníbal Acevedo Vilá, a leader of the PPD.

Nevertheless, privatisation forms a crucial plank in the new, more market-oriented, economic policy launched in 1994 by Governor Pedro Rosselló.

One of the objectives has been to reduce the drain on state finances of loss-making government enterprises, which have been among the first to be sold. Puerto Rico Maritime Shipping (Navieras) – sold in March 1995 – had made operating losses in all but three of the previous 20 years, running up debts of more than $380m.

The state-owned pineapple plant sold in December 1995 had accumulated losses of $55m and state-owned hotels such as the Mayagüez Hilton and Hostal El Convento had also accumulated significant deficits. Several regional airports slated for sale or closure are also losing money.

More importantly though, privatisation has been identified by the administration as one of the ways to improve the efficiency and quality of the island's infrastructure and services.

Government officials argue that capital and private-sector management expertise is needed to improve the island's telecommunications and utilities infrastructure so that private businesses based on the island can remain competitive internationally. They say that following the deregulation of the telecoms sector in 1996, the PRTC would have been unable to compete had it remained in state hands.

"We knew that if this entity was not privatised we would be putting the future of Puerto Rico in a critical situation," says Jaime Morgan-Stubbe, executive director of the Puerto Rico Industrial Development Company (Pridco).

Carmen Culpeper, president of PRTC, explains that under public ownership the company's ability to run its business efficiently and respond quickly to market pressures was limited. "It was bound by too many government procedures and regulations that delayed decision-making in a competitive environment," she says.

PRTC's privatisation, which the US Federal Communications Commission was expected to approve early this year, will give the company much greater freedom in the way it recruits and remunerates workers.

Ms Culpeper is optimistic that under new management the company should be able to increase efficiency, reducing the number of employees per line from a level of 4.8 per 1,000 lines towards the US average of 3.1.

There are no plans to sell the Electric Energy Authority but private capital is being encouraged to participate in the electricity sector, through the development of a number of co-generation projects. A 507MW gas-fired plant built by Ecoelectrica, at a total cost of some $700m, is expected to come on stream in September.

The government has turned to a private sector company – Générale des Eaux of France – to improve the management at the Puerto Rico Aqueduct and Sewer Authority (Prasa). Professional Services Group (PSG), a Générale des Eaux subsidiary, was given full management control last September as part of a three-year contract.

According to Ms Lourdes Rovira, president of the Government Development Bank for Puerto Rico and a member of the government's privatisation committee, privatisation of Prasa may be the only way sufficient resources can be found to rehabilitate the island's network of wells and water pipelines and sewerage.

"Infrastructure problems have been abandoned for many years," says Ms Rovira. "Our facilities are way behind."

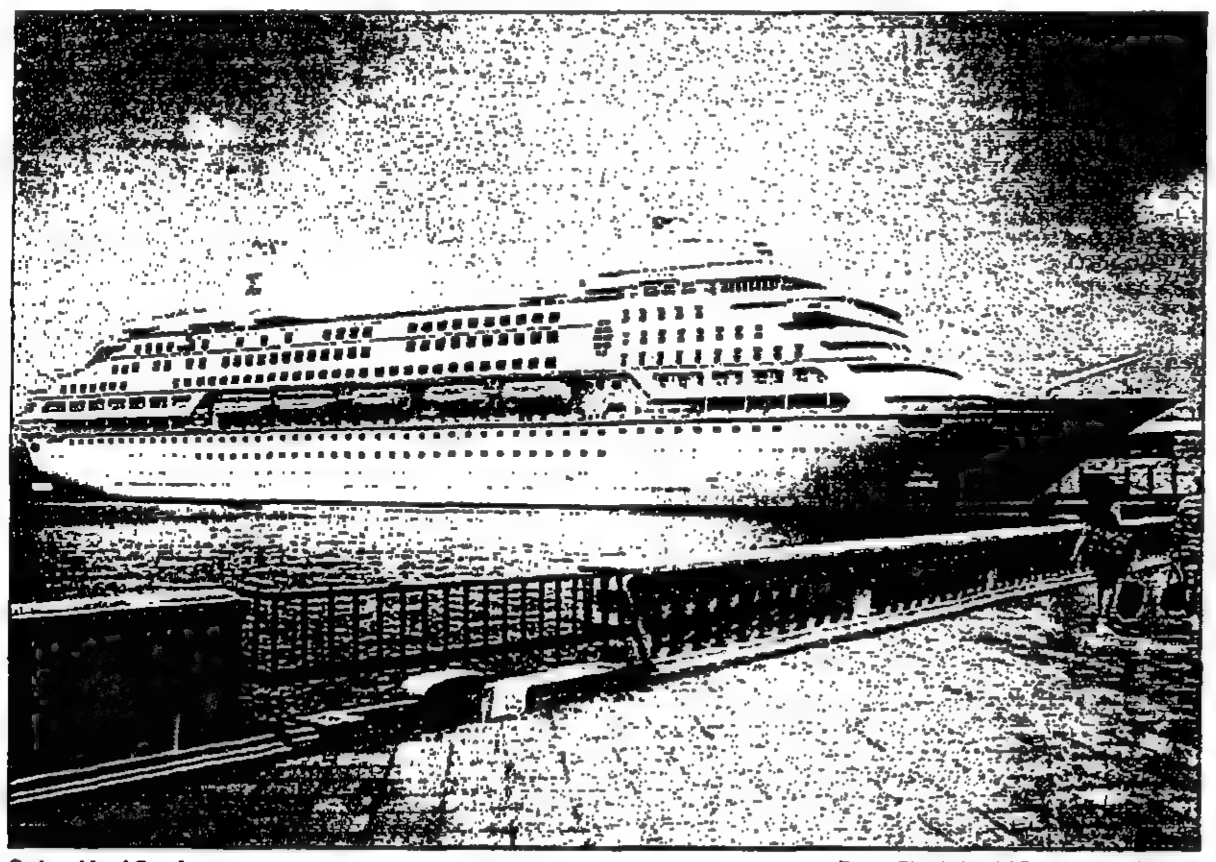
Also on the way are plans to bring greater private sector participation into Puerto Rico's public sector pension system, a move designed to increase the efficiency of fund management and help deepen the local capital market.

Ms Rovira says the administration is likely to stop short of full privatisation but will involve private companies in fund management. The system will also be changed from one based on defined benefits to a defined contribution programme.

Other targets include the Public Buildings Authority, an agency that builds and manages offices, schools and other public buildings.

Ms Rovira says that the government is determined to press ahead. "It is going to be done and people will accept it," says Ms Rovira. "If we did the telephone company we can do anything."

Well policed: telecoms workers protest against the PRTC sell-off AP



Cruise ship at San Juan Puerto Rico Industrial Development Company

TOURISM by Richard Lapper

Sector reaps the benefit of $1bn of investments

The results of promotion have been impressive. Top-ranking US hotel, property and leisure companies have built new properties or refurbished existing ones

Neglected for the better part of 20 years, the tourism industry has been one of the biggest beneficiaries of the government's plans to diversify the Puerto Rican economy.

The sector, buoyed by generous incentives and a vigorous and expensive official promotion campaign, has benefited from new investments of about $1bn in the past five years and spending by visitors has increased by about 50 per cent.

"They are focused on building the tourism industry. They weren't before," says Raúl Bustamante, general manager of Caribe Hilton, one of the island's most well-known hotels.

Under new incentive legislation unveiled by Governor Pedro Rosselló in 1993, the government offered tax incentives to hotel developers and guarantees to banks prepared to lend money for such projects. To be eligible for this programme, developers must take equity stakes of at least 40 per cent of the value of the project. But the government effectively assumes a chunk of this cost by giving tax credits for up to half this amount. These credits can then be sold on the secondary market to Puerto Ricans.

At least $25m a year has been spent on promotion, much of which is designed to underscore Puerto Rico's attractions as a destination that combines the security and stability of the US with the excitement and tropical attractions of Latin America.

The results have been impressive. A string of top-ranking US hotel, property and leisure companies have built new properties or refurbished existing ones. According to the Puerto Rico Tourism Company, 23 new properties were opened between 1993 and 1997, with total investments of $843.8m.

Westin, the US group, spent $182.1m on its Rio Mar beach hotel, Ritz Carlton invested $142.6m in its new hotel in San Juan, and Marriott invested some $122.7m in its hotel in the capital. Last year, Ladbroke, the British group which owns Hilton International, paid $80m to take control of the Caribe Hilton from the government. It had previously administered the property on a contract basis.

The number of hotel rooms on the island has increased by over 50 per cent to more than 12,000, while spending by tourists has increased by about the same figure to $2.3bn in the year to June 30 1998.

The number of jobs in the sector has also soared, to 13,500, some 4,500 more than in 1992. And according to Jorge Dávila, executive director of the Puerto Rico Tourism Company, the industry indirectly counts for more than 50,000 other jobs.

The expansion is set to continue. The centrepiece of new developments is the so-called Golden Triangle, linking the rehabilitated old colonial centre of San Juan, with a new development on the Caribe Hilton site and a new convention centre at Isla Grande.

Ladbroke is to invest $40m in rehabilitation of the Caribe Hilton and some $70m on extra rooms and other development of the site. The government is prepared to invest $200m, alongside a further $200m from the private sector, in the new convention centre – to be built on a 100-acre site on Isla Grande in San Juan.

The new facilities should make Puerto Rico more attractive as a centre for business conventions. "This will be a major catalyst for improving the industry since we will be able to attract bigger conventions," says Mr Bustamante, who is also chairman of the Puerto Rican Tourism Association.

Efforts are also being made to extend the industry's base. Four out of every five visitors are from the US, with the majority from the north-east, so the industry remains heavily dependent on the US economy. The promotion campaign seems designed to capture a broader range of US tourists.

"There are tremendous opportunities on the mainland. By saying 'Puerto Rico, USA,' we provide a comfort zone which the US traveller looks for," says Mr Dávila. "It is an exotic destination but it is at home. You don't need a passport and we use the dollar."

The industry is particularly keen to tap potential demand in South America and Mexico. As part of these efforts airlines are being encouraged to open regular flights to San Juan. Mexicana de Aviación opened a regular three-days-a-week flight to San Juan early this year and Mr Dávila says talks have been held with Varig of Brazil and other airlines.

In addition, Mr Dávila says efforts are being made to make Puerto Rico attractive to a broader range to holidaymakers. "There is a perception that Puerto Rico is a high cost, high price destination," he says. Sol Melia of Spain is introducing the so-called all-inclusive concept in which visitors pay a fixed amount each day for food, drink, accommodation and entertainment with its plans to develop two hotels at Rio Grande in the north-east. Three time-share developers are also working on Puerto Rican projects.

COLUMBUS

Statue of controversy

A much larger than life replica of the Italian navigator Christopher Columbus is annoying residents who may have to give up their homes to accommodate it

Zurab Tsereteli, a Georgian sculptor whose 15-storey statue of Peter the Great is a well-known Moscow landmark, is the unlikely subject of a row in Puerto Rico over Christopher Columbus.

Five hundred and six years after Columbus was sighted on a Puerto Rican beach by the native Amerindians, a much larger than life replica of the Italian navigator is having a difficult time finding a home on the island.

Mr Tsereteli, president of the Russian Academy of Arts, has sculpted a 660-tonne Columbus statue which is to be erected in Puerto Rico. But residents of the neighbourhood in the western Puerto Rico town where the statue is to be mounted are balking at the price they will have to pay.

Ten houses will have to be removed to make way for the statue, which is a collection of 2,000 pieces of metal. Owners of the houses say they will fight to stay where they are. The 10 houses are adjacent to the seven acres on which the $25m Columbus statue will be sited.

Reflecting the restlessness of the 15th Century navigator, the disassembled statue has been moving around. It was taken from its original site after the Federal Aviation Administration claimed that it was a threat to air traffic.

The FAA said the statue should be reduced from its height of 297 feet to 220 feet. Officials then decided to move the statue to its new and controversial site. Mr Tsereteli's next job is to mount the statue.

Being forced to give up their houses, despite the compensation they will get, is only one thing which annoys the residents. They do not mind having the statue in their neighbourhood, some say, but they are unhappy with Mr Tsereteli's seemingly trite approach to their inconvenience.

The sculptor said he was not bothered by the possible displacement of the 10 houses to accommodate the statue. He lost his home in the Republic of Georgia, because it had to make way for "improvements".

Mr Tsereteli said he wanted to bring the statue, the Birth of the New World, to Puerto Rico because Spanish was the island's language, and because Columbus, in the service of Spain, had stopped on the island. He was told Columbus had landed in the western part of Puerto Rico.

"The climate is good. This is my home," he said. The region reminded him of his native town in the Republic of Georgia. He sees no problem in moving the houses to make way for the statue.

Canute James

Christopher Columbus landed in Puerto Rico 506 years ago Mary Evans Picture Library

BUSINESS GUIDE by Canute James

US practices are order of the day

Getting to Puerto Rico is made easy by the many airlines which serve the island. San Juan is seven hours from London

Puerto Rico is a heady mix of Caribbean and Latin American, but the business culture is American. A visitor doing business in Puerto Rico should not expect a "mañana" approach to appointments.

Amid the debate about the island's political status, Puerto Ricans value their political ties to the US. That they are Americans is shown immediately in a hard-nosed, practical approach to business. In doing business on the island, a visitor should take the same approach as one would on the mainland.

Getting to Puerto Rico from Europe, North and South America and the Caribbean is made easy by the many airlines which serve the island. San Juan's Luis Muñoz airport is seven hours from Madrid and London, three hours from New York and two hours from Miami. There are also airports in main cities such as Ponce and Mayaguez, while several regional airports allow quick access to almost all parts of the island.

Although the island is a holiday resort, it is also a thriving regional business centre. There are several efficient business hotels, mainly in San Juan, the capital, and less than 20 minutes from the airport. Early reservations are recommended as hotels tend to be fully booked on holiday weekends in the US. Taxi service at the hotels is prompt, but allowance should be made when going to meetings for San Juan's sometimes choking traffic.

Local and international telecommunications are efficient. International direct dialling is available to all parts of the world. Puerto Rico's area code is 787, which is followed by the seven-digit local number.

Puerto Rico observes the main US holidays, plus a few of its own. The main holidays are January 1, 6, 12 and 19; February 16; March 22; April 2 and 21; May 10 and 25; June 21; July 4, 21, 25 and 27; September 1; October 12; November 9, 19 and 26; and December 25. Dates for some local holidays are not fixed, and it is advisable to check these with local contacts.

Puerto Rico is four hours behind GMT and one hour ahead of Eastern Standard Time. Business hours are generally between 8.00am and 5.00pm.

Puerto Rico is adequately banked, with local and foreign banks offering a full range of services. The main banks include Banco Popular, Banco Santander, Banco Bilbao Vizcaya, Banco Central Hispano, Citibank, Chase Manhattan, Bank of Nova Scotia, and Royal Bank of Canada. Banking hours are 8.30am to 2.30pm Mondays to Fridays.

Useful business contacts

Department of Economic Development and Commerce,
FD Roosevelt Ave #355, 4th Floor, Hato Rey, PR 00918.
Tel: (787) 764 1175. Fax: (787) 765 7709.

Industrial Development Company,
PO Box 362350, Hato Rey, PR 00936.
Tel: (787) 758 4747, Fax: (787) 754 9640.

Manufacturers Association,
PO Box 192410, San Juan, PR 00919.
Tel: (787) 759 9445, Fax: (787) 756 7670.

Chamber of Commerce,
PO Box S-3789, San Juan, PR 00902.
Tel: (787) 721 6060, Fax: (787) 723 1891.

Bankers' Association,
820 Banco Popular Center, San Juan, PR 00918.
Tel: (787) 753 8630, Fax: (787) 754 6077.

After business hours, San Juan offers a range of relaxing activities. The city has several commendable restaurants close to the main business hotels, and in Old San Juan, the colonial zone of the capital. Cultural events are frequent. The Tourism Company (tel 787- 721 2400) can provide dates, times and locations of events.

هكذا من الأصل

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POLITICS by Canute James

When you have the best of both worlds, why change?

While opinions differ in Puerto Rico there appears little enthusiasm in the US Congress for deciding whether the possession should become the 51st state of the Union

Politics in Puerto Rico is dominated by a long-running debate over the island's relationship with the US with which Puerto Rico has a quasi-colonial "commonwealth" relationship.

Islanders vote in presidential primary elections, but not in US general elections. They have one non-voting representative in Washington, and do not pay federal taxes. The island is given billions of dollars each year in food stamps and other federal aid from Washington, and although Puerto Ricans fight in the US army, the island sends its own teams to the Olympic Games.

"Puerto Rico's political status is not a problem only for Puerto Rico, but it is also a problem for the US," said Pedro Rosselló, the island's governor, in explaining why he wants the US possession to become the 51st state of the Union. "The US does not see itself as an imperial state, and Puerto represents an imperial problem for the US."

Aníbal Acevedo Vilá, president of the opposition Popular Democratic party, disagrees: "The reality for Puerto Rico is that our current status is the best for us."

"We have our own history, language, heroes – our own culture. But we are US citizens. Puerto Ricans have the best of both worlds. Why change?"

Last year was the centenary of the US takeover of the island from Spain in the Spanish American War, and Mr Rosselló, considering it an appropriate occasion for the island to decide its political future, called a referendum in mid-December.

In the event, the majority of voters supported an opposition call for a rejection of any change in status, and voted for none of the options – statehood, independence, free association with the US and enhanced commonwealth. Mr Rosselló had hoped that emphatic support would give him a strong hand in asking the US Congress to order a referendum, and to act on the result. The result of last month's plebiscite was not binding on Congress.

While 50.3 per cent backed the opposition's call for no change, 46.5 per cent supported statehood. Independence was supported by 2.5 per cent while free association received 0.3 per cent. Despite this, Mr Rosselló intends to continue asking the US Congress to make the island a state.

Rosselló: intends to continue asking the US Congress to make the island a state AP

"If Puerto Rico is a part of the US then it must participate in the rights and responsibilities which come with being a part of the US," said the governor. "The vote in the plebiscite was against everything, but statehood had more support than any other option. The clearest message from it was that every one is in favour of change."

But Mr Acevedo Vilá suggested that it was futile to continue the debate. "Statehood was defeated in the plebiscite, the terms of which were drafted to ensure support for statehood. If the governor wants to claim victory, he can. This is the second time in six years that statehood has lost." There appears little enthusiasm in the US Congress for dealing definitively with the issue of Puerto Rico's status. The Congress has yet to authorise a binding referendum on the matter. The House of Representatives approved last year a plebiscite by a narrow margin (209-208), but the Senate did not consider it.

Some members of Congress balk at the prospect of adding a small, relatively poor, Spanish-speaking state. The failure of the Mr Rosselló to garner majority support for statehood will make Washington's legislators less convinced that they should deal with the matter expeditiously. Puerto Ricans' lack of interest in political independence is due partly to close observation of the social, economic and political problems which have overtaken their neighbours. Most are not keen on losing US citizenship, and independence would entail a new determination of the status of the estimated 2m Puerto Ricans who live in the US.

Celebrations last December after the majority of voters rejected plans to opt for full US statehood AP

In arguing for political autonomy, the supporters of independence say Puerto Rico is different from the US, and is culturally a part of Latin America which would not fit easily into the US.

The debate turns inevitably on the economic implications of statehood or independence. "Some say that statehood is bad for economic development," said Carlos Vivoni, secretary for economic development and commerce. "But the 50 states are having good rates of economic growth. Statehood will not mean economic dislocation for Puerto Rico. It will lead to a strengthening of the sense of stability. The economies of all the territories boomed after they became a state. The issue of statehood for Puerto Rico is not dead."

If Puerto Rico compared itself with neighbouring islands, then it would seem to be doing well economically, said Mr Rosselló. But the proper point of reference must be the 50 states, he contended. The current status was preventing the island from reaching its full economic potential.

"Puerto Rico has one third the income per capita of the national US average," said the governor. "It has a half the income per capita of the poorest state – the same as 50 years ago. We need to be a state to close this gap."

This is rejected by Mr Acevedo Vilá, who says that improvement for Puerto Ricans will only come about by enhancing the commonwealth status. "Becoming a state will deprive us of the flexibility we have. We do not pay federal taxes. We have access to the US market and business here has the legal protection of the US. The only way we will see an end to this argument is when Congress says that commonwealth should be enhanced."

José Villamil, one of the island's leading economists, concluded that Puerto Rico would have to continue the same economic policies whether or not it changed its status. "Economically, Puerto Rico will have to do the same things whether it is a state or an independent nation, although a few things will be different if the island were a state – such as paying taxes to the federal government and losing rebates it now receives on rum exports to the mainland."

MANUFACTURING by Pascal Fletcher

Learning to live without generous US tax breaks

Government economic planners are optimistic: their strategy is to encourage research and development and high-tech service activities. But manufacturers expect hardships

Puerto Rico's large manufacturing sector, which produces nine out of the 10 top-selling prescription drugs in the US including tranquillisers and anti-depressants, may be needing a pick-me-up of its own these days.

The sector, which contributes just over 40 per cent of the island's annual Gross Domestic Product (GDP), is struggling to come to terms with the phasing-out of the generous US tax breaks that fuelled its impressive growth over the past half decade.

The planned elimination by 2006 of the Section 936 tax incentives has raised fears about plant closures and job losses at a time when Puerto Rico is fighting to preserve its image as an attractive investment and manufacturing centre in the face of growing competition from Latin America, Europe and Asia.

Opinions about the sector's future are mixed.

Government economic planners take an upbeat view. They argue that Puerto Rico's manufacturing industry is surviving better than most the pressures of consolidation and downsizing which are squeezing manufacturers around the world.

They are also apparently confident that new local tax incentives, which reduce maximum corporate income tax to 7 per cent and in some cases to as low as 2 per cent, will keep existing US and foreign manufacturers on the island and attract new ones. This is part of a new government strategy to encourage research and development and high-tech service activities in Puerto Rico.

"We want to start promoting Puerto Rico as a high-skilled, high-tech, diversified investment base for the new millennium," said Carlos Vivoni, secretary for economic development and commerce in the government.

He added: "That doesn't mean we are turning our backs on manufacturing . . . we are completing it with services and trade."

William Riefkohl, executive vice-president of the Puerto Rico Manufacturers Association (PRMA), said his organisation fully supported the government's aims to transform and modernise the manufacturing sector. But, in his opinion, the phase-out of Section 936 incentives was already clearly taking its toll.

"We have had closures . . . there is a clear trend and no new companies are coming," Mr Riefkohl said. He produced newspaper reports of more than two dozen cases of plant closures and job lay-offs announced in 1997 and 1998, apparently involving several thousand jobs. These included big shut-downs by US companies such as Motorola. The main reasons cited were mergers, consolidations and restructuring due to tough competition.

Mr Riefkhol, whose organisation has 1,700 members, said he believed the biggest impact from the Section 936 phase-out was still to be felt by the Puerto Rican manufacturing sector. "The major hardships have not arrived yet," he said.

He believed it would take time for the government's transformation strategy to take effect, and in the meantime the sector ran the risk of being upstaged by other manufacturing centres in Europe and Latin America.

Government officials admit overall manufacturing jobs have fallen over the past five years, from just over 151,500 in 1993 to 144,350 in 1998. The biggest net losses have been in clothes manufacturing.

"We realise we are not going to be creating many new jobs in the manufacturing sector," said Jaime Morgan-Stubbe, executive director of the government's Puerto Rico Industrial Development Company (Pridco).

But he noted that Puerto Rico's exports had grown by a hefty 28 per cent in fiscal 1998. And he insisted that manufacturing employment levels were holding up far better than in other parts of the world. Mr Morgan-Stubbe also referred to several new big expansions in Puerto Rico announced over the past two years by US and European companies.

He cited a $100m expansion by Hewlett-Packard, the US electronics group, plans by Monsanto subsidiary Searle to invest $200m to boost its Puerto Rico operations and another projected $100m investment by IPR Pharmaceuticals, a subsidiary of Britain's Zeneca Group.

Following a Pridco trade mission to Germany last October, Mr Morgan-Stubbe said two German companies, medical instruments maker Eppendorf and pharmaceuticals producer Knoll, were planning to expand their Puerto Rico operations. Fresh investments totalling between $500m and $800m were under negotiation, Mr Morgan-Stubbe said.

He added the government's promotion of research and development was also starting to bear fruit. He cited a $15m investment by Allergan to produce high-class interocular lenses in Puerto Rico.

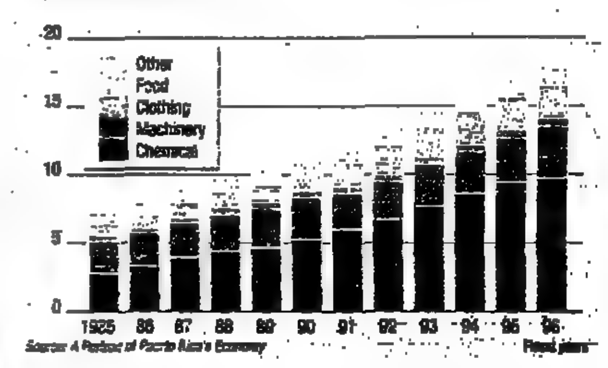
Pharmaceuticals: government planners are confident about new local tax incentives Puerto Rico Industrial Development Company

Mr Daniel Lebrón, president and general manager of Searle in Puerto Rico, said his company was expanding with the acquisition of a new plant at Barceloneta, previously owned by Nicomed. It was also upgrading its Caguas plant to become a global manufacturing site for two new products.

"My feeling is that the pharmaceutical sector in Puerto Rico will stay stable in the next few years . . . I don't see the industry leaving Puerto Rico," Mr Lebrón said.

But he said manufacturers, backed by the government, were lobbying hard for the US Congress to allow the continuation after 2006 of so-called Section 30A wage credit incentives, which were extended for a 10-year period when Congress announced the repeal of the Section 936 incentives in 1996.

Manufacturing net income
by industrial activity ($bn)



Source: A Review of Puerto Rico's Economy

One strategy which some Section 936 companies in Puerto Rico were using to adapt to the changes in the tax environment was to transform themselves into Controlled Foreign Companies (CFCs), owned from abroad.

This was the case of Searle, in at least part of its operations, and a number of other companies. "This is an option quietly being used," said the PRMA's Mr Riefkohl. He believed that about two dozen companies had taken this step and more would follow.

One effect of pull-outs or plant reductions by Section 936 companies has been to create opportunities for enterprising local Puerto Rican companies. One of these is Mova Pharmaceuticals, which in the past two years has acquired two new plants, the most recent relinquished by Eli Lily.

"The changing circumstances create problems but they also bring opportunities," said Joaquín Viso, Mova's president. His company was currently negotiating terms to acquire another plant at Manatí being vacated by Hoechst Marion.

Mova planned to increase its workforce from 750 to 1,000 by the year 2000 and last year opened a pharmaceuticals research and development centre, the first of its kind on the island.

AGRICULTURE by Pascal Fletcher

Hurricane-hit sector will bounce back

Because infrastructure modernisation was under way before the hurricane, the sector should recover lost ground within 12 months

When Hurricane Georges swept across Puerto Rico last September 21, it inflicted the most damage on the island's smallest economic sector.

The hurricane, the worst to hit the US Caribbean territory in 70 years, levelled banana plantations, reduced metal poultry houses to twisted wrecks, slaughtered tens of thousands of chickens and decimated the island's coffee crop.

It caused losses of more than $300m to an agricultural sector that contributes barely 1 per cent to Puerto Rico's annual gross domestic product (GDP). No other single sector suffered such devastation.

Nevertheless, Department of Agriculture officials are confident that the sector, which has undergone a big transformation in the past half decade, can bounce back.

"It's not a disaster. We can recuperate," said Carlos Flores, department of agriculture undersecretary.

He estimated the impact of Hurricane Georges would lop as much as $230m off the island's gross agricultural income this year, which reached a six-year high of more than $700m in the 1997-98 fiscal year. But he predicted the sector would recover this lost ground within the next 12 months.

Counting the cost: this lamb survived but the farmer lost 25 others during the hurricane AP

"We will get back on our feet again by the year 1999-2000," Mr Flores said. Four months after the hurricane, he estimated the sector was already 60 per cent recovered. He said the poultry sector was bouncing back rapidly after suffering losses of more than $30m. Recovery of banana and coffee plantations, where estimated hurricane damage was $97.7m and $42.8m respectively, would take longer – about eight or 10 months.

The island's dairy sector, whose milk production accounts for 34 per cent of total gross farm income, escaped relatively unscathed with estimated losses of only $3m.

Mr Flores said that in addition to immediate emergency aid of $10m, the government was concentrating its assistance efforts on rebuilding farm infrastructure, such as warehouses and poultry houses, where total losses from the hurricane were estimated at $70m.

After Georges passed, Governor Pedro Roselló announced he was renewing a $125m farm infrastructure funding programme, while leaving intact $35m of funding already approved under the original 1996 project. This meant a total of $160m would go towards infrastructure renewal in agriculture.

Even before Georges struck, infrastructure modernisation was a big part of the government's efforts to develop a more efficient and technically advanced commercial agriculture and agro-business in Puerto Rico.

Farming on the island had already changed considerably since the 1940s and 1950s, when traditional small farming methods prevailed and sugar cane, coffee and tobacco were the dominant crops. Of these, only coffee has survived, but it now lags behind milk and poultry production.

Half a decade ago, there were about 40 sugar mills on the island. Now only two remain. Formerly state-owned, these are privately operated following the privatisation of Puerto Rico's Sugar Cane Corporation. A single remaining sugar refinery at Ponce is still state-owned, but could be privatised in the year 2000.

The main thrust of the government's agricultural strategy, part of a national New Economic Development Model, is to raise efficiency and quality levels, especially in "traditional" crops such as coffee and sugar, while encouraging new initiatives with export potential for crops such as tropical fruits and fresh vegetables.

Almost all of Puerto Rico's farm output is consumed locally, although small quantities of coffee are exported to Europe and Japan and some fruit and vegetables – mangoes, tomatoes and onions – also to Europe. Growing sales of ornamental plants, previously exported to the US mainland, now focus on the local market. Current agricultural production covers only about 20 or 30 per cent of the total food needs of the island's 3.8m population.

In its effort to encourage farmers to diversify and invest in modern, efficient commercial farming projects, the government offers generous incentives, including a 50 per cent tax incentive credit (Law 225) for such projects. The authorities were obliged to put an annual cap on the scheme of $15m a year after receiving project applications totalling more than $85m in 1995, the first year of Law 225.

In its support for infrastructure development, the government has been offering to pay 90 per cent of total investment costs in irrigation and drainage projects. So far, some $8m has been paid out for 66 projects, and a further 460 projects had been approved.

To halt the drain of farm workers to the island's large manufacturing sector, the government in 1995 set a minimum wage for agricultural employees of $4.25 an hour, the federal minimum wage. This was almost double the wages that Puerto Rican farm workers had been receiving previously. Mr Flores said the agricultural workforce was stable at about 32,000-35,000, only 3 per cent of the island's total labour force.

His department was also fighting to preserve Puerto Rico's productive farm land from encroachment by property developers and builders. Any change in the use of farm land had to be approved by the department. "It's our big headache," Mr Flores said.

SCIENCE AND TECHNOLOGY by Christopher Swann

New economic strategy launched

The target is to extend spending on research and development and increase productivity


Local high-tech companies are being encouraged to undertake their research in Puerto Rico — Puerto Rico Industrial Development Company

Ambitious plans that could make Puerto Rico the science and technology centre of the Caribbean are being put into practice. The strategy, modelled on policies developed in Singapore and Ireland, is designed to increase productivity and add at least 2 percentage points to the island's economic growth rate, which has averaged 2.5 per cent since the mid-1970s.

"For a long time efforts were made in parallel by academia, industry and the government to foster the development of a knowledge economy, but they were not complementary," said Manuel Gomez, vice-president of the University of Puerto Rico and one of the architects of the new economic strategy. "This time we are harnessing these efforts into a coherent whole."

Central to the programme is a tax exemption allowing companies to write off double the amount spent on research and development against their tax bill. This may be deferred if necessary until start-up ventures break into profit. The offer, currently only available to new entrants to the market, should soon be extended to the plethora of high-tech companies which have long manufactured in Puerto Rico but conduct their research elsewhere. The target is to raise R&D spending from a lowly 0.3 per cent of GDP to 1 per cent within five years. Increased R&D spending should in turn stem the "brain drain", which robs the island of 80 per cent of its PhD graduates.

An aggressive bid for federal funding by the University of Puerto Rico has already yielded fruit, doubling the institution's R&D spending over the past five years to $50m. Further funding from the local government is expected to boost the annual figure above $70m in the few year.

Besides helping to lift R&D spending, the new economic model assigns a key role for universities in ensuring that home-grown products are commercialised on the island. Dr Gomez, a long-standing advocate of the industrial development policy, has helped secure federal funds for an office to negotiate the complex federal patenting process and arrange licensing and royalty deals.

The university is also seeking to reshape its courses to meet the needs of potential R&D investors. An eclectic new doctoral course in computational science and engineering, for example, aims to exploit super computers in drug design, software design, material science and robotics. This, says Dr Gomez, will provide a uniquely trained human resource with which to attract companies. A 200 per cent tax exemption on training is intended to encourage the private sector to maintain the momentum generated by the education system.

Meanwhile, high-tech start-up companies, hitherto starved of cash by distant venture capital funds on the mainland, are to be fostered by an expansion of seed funding from the government's Economic Development Bank. "It's going to require upwards of $100m a year of seed capital with three out of every four dollars provided by the private sector," says Dr Jose Villamil, economics professor at the University of Puerto Rico and principal consultant for the new high-tech initiative.

In addition the government is planning to set up research institutes for five sectors in which the planners believe the island can forge a competitive advantage: pharmaceuticals, manufacturing processes, life sciences, communications and information and health sciences.

Consortiums of businesses and universities are expected to bid next year for the first of the institutes, which will aim to provide technical solutions to business problems.

"As well as providing basic and applied research for industry, the institutes should act as incubators for new business and breed collaboration between industry and the universities," says William Boardman of Arthur D. Little, the consultancy firm advising Puerto Rico on its economic plan.

With the policy barely two months into the implementation phase, it is too early to assess its effect. Participants, nevertheless, point to anecdotal evidence of progress. "An increasing number of companies are already talking about setting up research facilities on the Island," says Dr Gomez. "We are hoping for a spiral effect." Bartolome Garaundi, vice-president of Electrobiology, part of the US biotech group Biomed, talks of a new industrial awakening. "There is a strong desire in government, universities and industry to make it happen."

But optimism is tempered by the realisation that the programme is against the clock. "We are 25 years behind the game," explains Dr Villamil. "Competitors like Singapore started to think about creating an environment friendly to science and technology back in the 1960s.

Turning around an economy for so long driven by outside forces is going to take time, says Dr Villamil. "We should begin to see accelerating growth in 2001 and 2002. But with only two to three years before the impact of federal incentive cuts really begins to bite, there is little time to spare."

FREE TRADE ZONE by Canute James

Unique opportunity for manufacturers

The free trade zone system will make the island a prime destination for companies seeking to expand or relocate

Puerto Rico's efforts to restructure its economy have been given a fillip by the US Commerce Department. The department's Foreign Trade Zones Board has approved the conversion of all the island's industrial parks into free trade zones. This makes the entire island a free trade zone, expanding the status enjoyed previously by the cities of Ponce, Mayaguez and San Juan.

The government is expecting an increase in new investments and expanded operations by foreign and local businesses with the expansion of the free trade zones. Companies operating in the zones will be relieved of customs duties on imported raw materials. This will make these companies competitive with those operating in foreign countries, according to the Puerto Rico Industrial Development Company (Pridco).

The free trade zones are locations at or near a US Customs port where foreign and domestic merchandise enters without customs duties or government excise taxes. Puerto Rico's size means that any location on the island will be "near" a port of entry, say government officials.

No export taxes are levied on products manufactured in the free trade zone if they are shipped to any country besides the US. Products shipped from the zones to the US are taxed at the lowest applicable rate. Warehousing activities in the free zones will also be tax free.

"No other location in the world can offer companies such a comprehensive free trade zone system," said Jaime Morgan-Stubbe, executive director of Pridco. "This, in combination with Puerto Rico's generous incentives package and skilled workforce, makes the island a prime destination for any company looking to expand or relocate."

The foreign trade zones encompass all Pridco's projects and cover 136 industrial parks, 667 buildings and 18.2m square feet of space on 4,500 acres of land.

Pridco sees as important incentives the tax breaks which companies will receive from the free trade zones. It has cut the period for approving applications for free zone operations from 18 months to 90 days, and reduced the cost of applications from $150,000 to $5,000.

Free trade zone status is also available on undeveloped land that is used for new facilities, said Pridco. This will enable companies to reduce start-up costs while benefiting from the exemption from customs duties, while saving time, effort and money in initiating a free trade zone operation.

Companies operating in the free trade zones will save money as a result of the exemption from customs duties and from the elimination of customs duties on re-exports. They will also benefit from duty relief on all materials, components and packaging used in the manufacturing of products in Puerto Rico even when sold within Puerto Rico and the mainland US.

"For example, under the current status, a pharmaceutical manufacturer with $100m in imports would have paid 6.3 per cent duty on its finished product," said Pridco. "But under the new foreign trade zone status, the imported material will be duty-free resulting in a savings of $6.3m.

"The approval of this application provides Puerto Rico with the most singular and comprehensive foreign-trade zone system in the world for reducing costs of operation; making the island an even more attractive place to do business."

Government officials say the designation of the island as a free trade zone will help it to overcome some recent developments which could slow the expansion of the economy. Tax credits under Section 936 of the US Internal Revenue Code, and which attracted many US mainland companies to Puerto Rico, are being phased out following a ruling by Congress.

The island is also hoping to regain some of the competitive edge in trade which some government officials say it lost with the evolution of the North American Free Trade Agreement (Nafta). The approval of the island as a free trade zone will also give it a chance to capture some of the business being done by trade hubs in neighbouring countries.

The expansion of the free trade zone to cover the entire island will also assist the government's plans to make Puerto Rico a "bridge" for trade between North America and South America when the planned Free Trade Area of the Americas is created in 2005.

The free trade zones "will help current business operations to be more competitive globally, and provide additional incentives for businesses to establish and maintain operations in Puerto Rico", said Pridco.

It claims: "Puerto Rico is the most unique and comprehensive, non-contiguous free trade zone in the US. The new system ... will allow companies to obtain significant new financial savings opportunities when locating manufacturing and distribution operations on the island."

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COMPANIES & MARKETS

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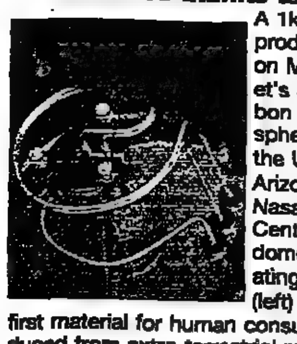
INSIDE

Alcatel begins to regain respect
These are critical times for Alcatel, the French telecommunications equipment company. Having been slammed by the market for an unexpected profit warning last September, the company started the long haul back to respectability when two US acquisitions aimed at strengthening its position in the fast-growing data networking market were well received. Page 17

Life on Mars thanks to a 1kg device



A 1kg device that will produce pure oxygen on Mars from the planet's predominantly carbon dioxide atmosphere is being built by the University of Arizona, Tucson, and Nasa's Johnson Space Center. The silver-domed Oxygen Generating Subsystem (OGS) (left) will generate the first material for human consumption to be produced from extra-terrestrial resources. Page 22

Hong Kong to merge its exchanges
Singaporean officials enjoyed a wry smile last week when Hong Kong announced plans to merge its stock and derivatives exchanges. Coming three months after plans were unveiled to merge Simex, the Singapore derivatives exchange, with the Stock Exchange of Singapore, Hong Kong's move underlined the rivalry between the two city states. Page 24

Budapest takes another beating
Hungary may be eastern Europe's healthiest economy but an investor with money in the Budapest stock exchange in January could be forgiven for forgetting it. Page 38

Companies face up to global crime
When businessman Trevor Bell ignored advice and took a taxi to dinner in Mexico City he was held up by two armed accomplices of the driver. But violent crime is only one of a web of non-conventional risks facing businesses in immature and fast-changing markets. Ignoring or mishandling such risks cost multinational companies more than €21bn last year. Page 22

Australia tastes genetic food debate
For Australians, genetic engineering means blue carnations rather than "Frankenstein foods". Branded Moondust, a genetically engineered Australian blue carnation will be marketed throughout Europe this year. At home, this has not created any concern, but the flowers are not eaten and the genetic engineering does not involve work on animals. Page 26

Bear market reigns over euro
The euro recovered from recent lows but did not make a break upwards. Despite talk of the euro approaching parity with the dollar, it rose above the $1.09 level but stopped short of $1.10, leaving it vulnerable to falls. Page 25

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MARKET STATISTICS

Exxon-Mobil merger alarms FTC

Antitrust agency may take action over planned deal

By Richard Wolffe in Washington

The planned merger between Exxon and Mobil raises extensive concerns over its impact on competition in key US markets and almost every sector of the industry, US antitrust officials warned yesterday.

In its first comments on its investigation of Exxon and Mobil, the Federal Trade Commission said it was prepared to take action in cases where a merger could affect competition "by even a small amount".

William Baer, director of the FTC's bureau of competition, stressed how the oil groups – whose combination would be the world's largest industrial merger – compete "at just about every level of the industry". Speaking before congressmen on the House energy and power sub-committee, Mr Baer said the Exxon-Mobil investigation was "still at an early stage" and no conclusions had been reached.

But his testimony suggested antitrust officials were strongly considering action in several areas of the combined company's operations.

Antitrust officials are concerned that the combined company will be "the largest company or one of the largest players" in crude oil exploration, refining, petrochemical manufacturing and gasoline marketing. The merged company would be most powerful in the north-eastern US, the Gulf coast and California.

Mr Baer said his staff, along with competition officials in 21 US states and the European Union, were examining how the merger would "change the competitive dynamics of this industry".

He said: "The Commission's inquiry is and has been to determine whether a merger would make it substantially likely that the remaining firms in the industry could reduce output and raise prices by even a small amount, to the detriment of consumers and, in this industry in particular, of the competitiveness of the American economy or the economy of any particular region."

The FTC has already imposed forced divestitures on Exxon over a joint venture with Royal Dutch Shell aimed at selling an essential motor oil additive. Exxon agreed in August to sell a business that produces viscosity index improver to Chevron.

Mr Baer said that while the Exxon-Mobil merger did not affect competition in the worldwide crude oil market, the FTC was particularly concerned about oil refineries on the Gulf coast. "It is vitally important for nearly all of this country east of the Mississippi to maintain a competitive Gulf coast refining market," he said. It was concerned that California also suffered from "tight supply".

Referring to past investigations and forced divestitures, Mr Baer said: "What we have learned... is that competition is critical to this industry and that concentration, as well as increases in concentration – even to levels that the antitrust agencies call 'moderately concentrated' – can have substantial adverse effects on competition."

Exxon and Mobil executives are due to testify before the subcommittee today.

MasterCard challenges Visa with new board structure

By John Authers in New York

MasterCard International, the global credit card association, is halving the size of its board to give greater influence to its biggest member banks, in the latest escalation of its battle with Visa.

Citigroup, which quit the board of Visa last month after a dispute over marketing, will gain a seat on the new MasterCard board. It said it would move a sizeable block of business from Visa to MasterCard.

At the heart of the move are conflicts of interest between the largest banks, which want to develop their own brand names, and smaller banks happy to develop the standard Visa and MasterCard brands.

John Reed, Citigroup's co-chief executive, had demanded a change in Visa's rules to allow the Visa logo to be moved to the back of the card, commenting that it was "astonishing" that the larger banks had so far tolerated a "communal" brand.

MasterCard signalled yesterday that it would be more receptive to members. Robert Selander, MasterCard's chief executive, said the change to the board demonstrated MasterCard's "flexibility and intense focus on serving our most important customers".

MasterCard's board will be reduced from 31 to 17, representing a global membership of more than 23,000 banks. Robert Willumstad, Citigroup's head of global consumer lending, will join the board.

Citigroup said: "We think the new board of MasterCard will be more in alignment with our strategic thinking, and we think we will be issuing a larger proportion of MasterCards. We will still issue some Visa cards."

Industry executives have speculated for some time that MasterCard, which promotes its own brand through television advertising and sports sponsorship, would shift to a policy that offers more tailored services to the larger banks. It is much smaller than Visa, and it was thought that this offered MasterCard its best chance of long-term survival.

The new board will be chaired by Donald Boudreau, vice-chairman of Chase Manhattan, who has been chairman for a year.

Cathay Pacific suffers first loss since 1963

By Rahul Jacob in Hong Kong

A sharp regional downturn and excess capacity in the airline industry have helped push Cathay Pacific, the Hong Kong-based airline, to its first annual loss since 1963.

Peter Sutch, chairman, said: "1998 will stand out as one of the most difficult years in the history of Cathay Pacific, as the severe contraction of Asian economies inevitably took a heavy toll on many of our key markets.

"We feel the recovery is not just around the corner. No significant improvement is expected in 1999."

Cathay announced that it had reversed into a HK$542m ($70m) net loss for the year ended December 31 after exceptional items of HK$869m, mostly reflecting provisions for older aircraft it is retiring from service.

In 1997, Cathay had a net profit of HK$1.7bn. Turnover in 1998 dropped 12.9 per cent to HK$26.69bn.

Excess capacity in the industry coupled with sharp competition among airlines to counter the regional slowdown resulted in a large drop in average fares. Fewer first class and business class passengers hurt Cathay's profitability as companies in the region consigned more executives to the back of the aircraft.

While average passenger loads were down just 0.7 per cent compared with 1997, average fares, or yields, plunged 18.9 per cent. From the middle of the year, there was some recovery in passenger loads, but at the expense of yields, said Mr Sutch.

Cathay Pacific's cargo services saw turnover drop 9.5 per cent to HK$7.04bn in 1998. "The cargo operations were seriously disrupted by the start-up difficulties at the new Hong Kong International Airport, which accounted for a substantial revenue loss during July and August," Cathay said.

Like other airlines, Cathay benefited from lower oil prices. Mr Sutch said if the airline had paid as much for fuel in 1998 as it had in the previous year, its loss would have increased by HK$1bn.

Cathay reduced its staffing from 16,000 to about 14,000, through attrition and redundancies last year. In spite of its progress in cutting costs, its base in costly Hong Kong is proving a liability. The company said the relatively higher costs of operating in Hong Kong owing to the devaluation of currencies elsewhere in the region had reduced the company's competitiveness.

"There is a lot of excess capacity on the long-haul routes and Cathay's competitors have a lower cost base than they do," said John Hetherington, an analyst with Paribas Asia Equity.

Cathay has put forward proposals to its pilots' union asking for substantial cuts in salary among senior pilots in return for share options.

However, the proposal has made little headway, leading to speculation the union might strike later this year. Senior flight crew based in Hong Kong are being asked to take a pay cut averaging 8 per cent.

The final dividend was cut from HK 17.5 cents to HK 7 cents, giving a total for the year of HK 10 cents (HK 29 cents).

DaimlerChrysler spurns Nissan

Carmaker refuses to take stake in Japanese group

By Michiyo Nakamoto in Tokyo and Haig Simonian in Geneva

Negotiations stalled: DaimlerChrysler's Jürgen Schrempp, left, and Nissan president Yoshikazu Hanawa

Nissan Motor said yesterday it would explore links with other motor companies after DaimlerChrysler decided not to take a stake in either the troubled Japanese carmaker or Nissan Diesel, its commercial vehicles arm.

Jürgen Schrempp, co-chairman of the German-US group, flew to Tokyo to tell Yoshikazu Hanawa, Nissan president, that the decision had been taken in order to concentrate on the merger of Daimler and Chrysler, announced last May.

"This [decision] is the result of a three-month period where both parties assessed the strengths and financial options of a global co-operation," said Mr Schrempp. "We had to accept that the opportunities a close relationship with Nissan offer are not achievable as quickly and smoothly as initially expected."

The negotiations appear to have foundered on two main issues: Nissan's heavy debts, which total about Y4,300bn ($36bn), and the long haul expected until any deal produced significant profits.

Nissan has forecast group net losses of Y30bn for the year to March, and had been looking to sell its 39.8 per cent stake in Nissan Diesel to reduce its debts.

The Japanese group said it would continue to explore other possible links, while continuing to look into co-operative projects with DaimlerChrysler. But it said it had not received any indication of interest from other companies.

Although Renault said yesterday it remained interested in buying control of Nissan Motor, the French group said it had not made a firm bid. The attractions for Renault of buying into Nissan are instant access to Japan and much of Asia – where Renault is barely present – and to the US.

But speaking at the Geneva motor show, Louis Schweitzer, Renault chairman, said: "We have always underlined that [Nissan] was both an opportunity but also something not easy, on account of reasons associated with the company itself and its present situation, and cultural barriers that might exist."

The news of DaimlerChrysler's withdrawal from negotiations came after the close of Tokyo trading, and is likely to hit Nissan shares today. "There has been so much hope and expectation on the part of investors that Nissan will do a deal," said Chris Richter, analyst at HSBC Securities in Tokyo.

Nissan also said yesterday that it would post an extraordinary loss of Y20bn due to a capital increase for Nissan Diesel Motor Sales, its 50 per cent owned subsidiary that is being merged with Nissan Diesel.

It said the capital increase, totalling Y40bn, was to make up for the difference in the book value and real value of the investment made in domestic dealerships owned by Nissan Diesel Motor Sales.

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Nissan red-faced, Page 18

Reliant Energy blazes trail to EU

By Andrew Taylor in London and Hillary Durgin in Houston

The first large takeover of a continental European electricity utility by a US group was confirmed yesterday when Reliant Energy agreed to buy Energie Produktie Bedrijf (UNA), the Dutch generator, for $2.4bn.

Further cross-border deals are expected following the start last month of the phased liberalisation of European Union power markets.

Previously, US energy groups concentrated on buying electricity supply companies in the UK, which began liberalisation before most other EU countries.

US groups are seeking to make similar inroads in continental markets. Edison International is thought to be one of several US rivals outbid by Reliant for UNA, the fourth largest US electricity and gas supplier.

Reliant, previously known as Houston Industries, has agreed to pay $900m for an initial 40 per cent stake in the Dutch utility that supplies 20 per cent of the country's electricity.

Reliant's holding in UNA, which is owned by the cities of Utrecht and Amsterdam and the province of North Holland, is due to rise to more than 50 per cent by 2002. The remaining shares must be purchased by 2006.

The US group, which has been involved in electricity privatisations in Latin America, said the western European power market was about one-third the size of the US market in terms of kilowatt hour sales.

Steve Letbetter, Reliant's president, said: "Europe is the most important region outside the United States that offers the combination of deregulating power and gas markets and strong commercial, political and legal infrastructure."

An attempt by the company to break into the European market failed last year when Reliant was involved in abortive merger talks with PowerGen, the UK's third largest generator.

Under an EU directive, industrial and commercial customers using more than 40,000MWh a year must be allowed to move to a power supplier other than their current regional or national monopoly company.

About one-third of the Dutch electricity market has been opened to competition, affecting 650 of its largest industrial and commercial customers.

The directive has already prompted a surge in acquisitions, joint ventures and strategic stake-building among European utilities.

EdF, the French state-owned power monopoly, last year bought London Electricity in a deal worth $3.2bn (£1.9bn). Imatran Voima (IVO), the Finnish power group, used its Swedish subsidiary, Gullspangs Kraft, to purchase Stockholm Energi in a deal worth $1.95bn.

Dutch electricity and gas companies, which tend to be smaller than neighbouring German, French and Belgian utilities, have been seeking to merge with each other or find international partners to reduce their vulnerability to predators.

Reliant said yesterday it intended to use its partnership with UNA as its "exclusive investment vehicle" in Europe.

PHARMACEUTICALS GROUP INSISTS MOVE IS NOT A PRECURSOR TO SPIN-OFF

DuPont to issue life sciences tracking stock

By Tracy Corrigan in New York

DuPont plans to issue a "tracking" stock for its life sciences business, in an effort to improve the chemicals and life sciences group's market valuation, and is discussing alliances with potential partners in the pharmaceuticals industry, the company said yesterday.

However, the group insists that the tracking stock, which will not be listed for at least nine months, is not a first step to spinning off the life sciences business as a separate company.

The tracking stock is designed to provide a separately valued security based on the earnings of DuPont's life sciences business, which had sales of $4.3bn in 1998 and after-tax operating income of $515m, excluding a non-recurring charge of $926m.

"The underlying strength of DuPont is that we are in the science business", moving between chemicals and pharmaceuticals markets, said John Himes, a DuPont investor relations spokesman. "We believe it is appropriate to keep the company together."

However, analysts say that DuPont's poor stock market performance reflects scepticism about this characterisation of DuPont.

"Despite long-standing and emphatic arguments by the hybrid segment of the industry, the investment community has not been persuaded by the combination of chemicals and pharmaceuticals," said Viren Mehta, an analyst at Mehta Partners.

"The stock is clearly undervalued, partly due to the fact that the life sciences vision has not materialised as rapidly as hoped," said Bill Fiala, chemicals analyst at Edward Jones, the St Louis-based brokerage.

He said he was sceptical about the tracking stock idea because "if you execute your plans properly, you will realise value. I thought it a little premature to throw in the towel".

Analysts were doubtful that DuPont's recent early-stage merger discussions with Monsanto would come to fruition, adding that although a merger of Monsanto and DuPont's life sciences business was a possibility, leadership issues and antitrust problems would still exist.

Referring to the company's pharmaceuticals strategy, Charles Holliday, DuPont chairman and chief executive officer, said: "Our goal is to bring our already solid DuPont pharmaceuticals to critical mass through strategic alliances."

Charles Holliday: seeking strategic alliances AP

Analysts believe that DuPont is in discussions with European pharmaceuticals companies and US biotechnology companies, but Mr Mehta noted that "just about every company is actively seeking alliances".

He added that DuPont had a strong base in some areas of pharmaceuticals, including cardiovascular and Aids treatments.

Mr Holliday said that he expected to be able to conclude one or more alliances by the end of this year.

Weak sales behind loss at Toys R Us

By Andrew Edgecliffe-Johnson in New York

Toys R Us fell into the red last year, dogged by restructuring charges and weak sales. The world's largest toy retailer said yesterday that the results suffered by comparison with 1997, when virtual pets, action figures and soft toys sold strongly.

The group is one of the few US retailers to have missed out on a prolonged consumer spending boom. Another, the former Woolworths group now renamed Venator, similarly reported heavy losses yesterday.

Ursula Moran, an analyst at Sanford C Bernstein, said Toys R Us had lost market share to discounters such as Wal-Mart and Target department stores, but that trading should begin to pick up in 1999. She added, however, that it would be difficult to tell before Christmas whether the company had done enough to restore its fortunes.

Robert Nakasone, chief executive, gave more details of the group's strategy to redesign its stores. The scheme will be applied to about 200 stores in 1999 and a further 325 in 2000.

Sales slipped in the fourth quarter from $5bn to $4.9bn, and rose by just 1 per cent to $11.2bn over the year. Same store sales were down 4 per cent in the US for 1998, and 2 per cent internationally.

A slide in fourth-quarter net earnings from $596m to $489m combined with $698m of charges, most of which were taken in the third quarter, to produce a $106m net loss for the year, against net earnings of $772m last time.

Restructuring also took a heavy toll on Venator. Although it reaped a $44m gain for selling its headquarters – the landmark Woolworth building in New York – the disposals of its specialist footwear and German general stores created a $139m charge last year.

Group sales slipped from $4.61bn to $4.56bn in 1998, with a 5.5 per cent like-for-like decline in the period, while the net loss deepened from $10m to $126m.

Roger Farah, chairman and chief executive, admitted the results were disappointing, and reflected internal issues such as delayed store openings as well as "difficult industry trends".

Having sold the last vestiges of the 119-year-old Woolworth empire last September, its collection of Foot Locker stores are now the world's largest athletic footwear retailer.

Mexico raises cost of telephone calls

By Henry Tricks in Mexico City

Mexico's long-distance telephone tariffs rose yesterday by up to 14.6 per cent, the first increase since competition was introduced in 1997 and a boost to the earnings prospects of Telmex, the top telecoms provider.

Cofetel, the regulatory agency, said the cost of local services, in which Telmex had a monopoly until this year, also rose by 4.07 per cent, with similar rises scheduled for July and October.

The rise in long-distance tariffs was considered a welcome break for Telmex's competitors, such as Alestra and Avantel, which have suffered steep losses. Since 1997, national long-distance tariffs had fallen by half, which they claimed was Telmex's way of driving them out of business.

For Telmex, higher tariffs were considered good for earnings, though they were less than the 18.6 per cent inflation rate last year, requiring 4.5 per cent productivity gains.

Rizwan Ali, a telecommunications analyst at Bear Stearns in New York, said he raised his earnings estimates for Telmex from $4.50 per ADR to $5.10 after the announcement.

Rumours of the tariff increase have helped push up Telmex shares from 23.8 pesos on January 1 to more than 31 pesos, with a 2.5 per cent increase yesterday morning alone.

Peruvian airline grounded by debts

By Sally Bowen in Lima

Aeroperu, the debt-ridden Peruvian flag-carrier that was privatised six years ago, is to suspend domestic flights from Sunday. Late on Tuesday it suspended all international services.

Raul del Solar, Aeroperu's legal adviser, said the airline has debts of $174m and assets of $50m. However, in the past two months it has succeeded in restructuring $90m of its total indebtedness. Aeroperu will now in effect be mothballed for 60 days while efforts to refloat it are intensified.

Delta Airlines of the US, which acquired a 35 per cent stake in April 1998 for $50m, said last December it would put no more money into the loss-making airline. Neither will the Mexican holding company Cintra, owner of Aeroméxico and Mexicana, which has another 35 per cent.

Seeking fresh capital, Aeroperu has been in talks with other potential partners since January. American Airlines, apparently the keenest, completed due diligence last week, but indicated the outstanding debt was still too large.

Aeroperu's existence as a private company has been ill-starred from the outset. Rival Peruvian airline Faucett, originally the winning bidder in the 1992 auction, has since gone bankrupt. Loser Aeroméxico alleged technical errors in the privatisation and subsequently outbid Faucett in a re-run.

In a statement from Mexico, Cintra said it had proved impossible to rescue the Peruvian airline, mainly because of the "high financial costs produced by an unmanageable debt".

Aeroperu's withdrawal from the domestic market leaves Peru with only one real airline: Aerocontinente, whose aggressive pricing is blamed for having driven half-a-dozen competitors into liquidation in recent years.

Tobacco sale lifts weight off RJR Nabisco

By Andrew Edgecliffe-Johnson

The 1988 leveraged buy-out of RJR Nabisco by Kohlberg Kravis Roberts may have gone down as one of the defining moments in US corporate history of the last decade, but Steven Goldstone, RJR Nabisco chairman, sees it differently.

On Tuesday, Mr Goldstone unveiled plans to sell the group's international tobacco operations to Japan Tobacco for $8bn, and to spin the remaining domestic cigarettes business off into a separate company.

KKR's move may have been breathtakingly audacious, but it also saddled RJR Nabisco with $29bn of debt. If there is a lesson from the group's last decade, Mr Goldstone said, "it is that you cannot thrive in a tough consumer market without a strong balance sheet".

Analysts believe the threat and reality of huge pay-outs to cover legal claims from sick smokers has weighed heavily on the valuation of the group's 80.4 per cent stake in Nabisco, best known for its Oreo cookies and Planters peanuts.

However, Mr Goldstone says the sell-off was motivated more by the need to sort out RJR Nabisco's balance sheet than to insulate the food division from future tobacco litigation.

"Even though it had great consumer brands, this company could not withstand some of the negative things that happened in the marketplace and the political arena," he said.

Mr Goldstone believes Nabisco fell behind its rivals by investing too little in marketing for a decade, and suffered from having to sell off valuable parts of its portfolio just to relieve the interest bill.

Now, he can look forward to a net $6bn coming in from Japan Tobacco's unexpectedly generous offer for the Camel, Winston and Salem cigarette brands outside the US. That will cut group debt by two-thirds, bringing the remaining tobacco business's debt down from more than $6bn to $1bn, and leaving Nabisco with about [illegible] net debt.

According to Martin Feldman, an analyst at Salomon Smith Barney, cutting the group's leverage will put the domestic tobacco business "in a stronger position to shield Nabisco Group Holdings [the holding company for the Nabisco stake] from most, if not all, litigation threats".

The company has been careful to make clear that Nabisco cannot be entirely isolated from future legal claims against the tobacco business, but Mr Feldman noted: "The industry has been remarkably successful at pushing most litigation claims to the tobacco manufacturing subsidiaries rather than the parent holding company."

Mr Goldstone, too, is confident that "the swirling controversy" surrounding tobacco will calm down once Nabisco is a stand-alone group, and that Nabisco, which has annual sales of $8.4bn, can become "the jewel of the food world".

RJ Reynolds Tobacco, stripped of the $3bn a year international sales, will be a smaller group, with sales of $5.5bn, operating in a changed competitive environment.

This led one triumphant anti-tobacco pressure group to talk of the "disintegration" of the group.

Most analysts hope that splitting off tobacco from the food division will in fact lead to fuller valuations for both halves of RJR Nabisco.

Mr Goldstone may hope, in particular, that the multiple offered by Japan Tobacco, which was twice what BAT Industries paid for Rothmans, will prompt analysts to review their valuations of all tobacco stocks.

Japan Tobacco, Page 26

Alcatel free to focus on telecoms

By David Owen in Paris

The French government is to allow Alcatel to pull out of Framatome, the nuclear construction and connectors company, according to Serge Tchuruk, chairman of the French telecommunications equipment group.

Mr Tchuruk made the disclosure in an interview ahead of today's annual results presentation. "The French government said 'yes', you are going to get out. 'We have decided to let you out'," the Alcatel chairman said.

He made clear, however, that details of how the withdrawal would take place had yet to be decided.

A disposal of the group's 44 per cent Framatome holding would probably be welcomed by analysts on the grounds that such a move would further reduce potential distractions from its core telecoms business.

For Mr Tchuruk, Alcatel's transformation from a conglomerate into a telecoms-focused company is already complete, with non-telecoms operations taking "less than 1 per cent of management time".

On Thomson-CSF, the defence electronics group in which Alcatel has a 16 per cent stake, he said that "contrary to what has been said, Thomson can very well conduct an alliance with an American company".

He said he was "restricting the scope" of technological co-operation with Thomson while waiting to learn the identity of any new partner.

"Thomson is courted now by the entire earth because it is a company with strong upside potential," he said.

Questioned on Alcatel's apparent offer to exchange its Framatome stake for an increased interest in Thomson in the context of the recent auction for the General Electric Company's Marconi defence business, he said: "An increased stake of Alcatel in Thomson is much more meaningful than maintaining a stake in Framatome. Thomson is a large company and it is liquid, so I am entirely flexible."

He made clear that Thomson was not regarded as a core business. "I never said defence is a core business. I said that I would try to take advantage of convergent technologies between defence and civilian activities. This I believe is still true, but it all depends on what partner if any comes with Thomson. The core business today is telecoms. Full stop."

He also said Alcatel had a capital gain potential of €5bn ($3.3bn) from non-core businesses.

INTERVIEW SERGE TCHURUK

On the road back to respectability

By David Owen

These are critical times for Alcatel, the French telecommunications equipment company, and Serge Tchuruk, its chairman.

Having been slammed by the market for an unexpected profit warning last September, the company appeared finally last week to have started the long haul back to respectability when two US acquisitions aimed at strengthening its position in the fast-growing data networking market were favourably received.

Today, a big part of Mr Tchuruk's task in the group's 1998 results presentation will be to build on that positive momentum.

This will probably involve persuading analysts that the objective of an 8 per cent operating margin in 2000 in the core telecoms unit is attainable. Preliminary 1998 figures put income from operations in the unit at FFr4bn (€610m, $664m) on sales of FFr99.8bn.

Interviewed in Paris this week, the Alcatel chairman makes clear that the data networking thrust which has seen the group acquire three US companies in five months for nearly $2.7bn had been on the cards for a long time.

"The fact that we acquired Xylan [a corporate data switching specialist bought last week for $2bn] is not a sudden bright idea which came to mind after the September crisis," he says. "We have been trying to buy Xylan for two years.

"We have made a choice and we have purchased precisely what we wanted. We wanted to go for top of the range technology and to try to leapfrog some of the existing products on the market. This does not guarantee success but it at least erases the problem of technological advances."

Having completed the acquisition of DSC Communications, another US telecoms equipment company, in September, it is little surprise that the US has become Alcatel's largest single market, with about $3bn of annual telecoms turnover, close to $4bn if telecoms components are added.

Mr Tchuruk says the company thinks it can double this figure in less than three years. He says the market is growing at about 12 per cent a year.

"We should far exceed the market growth. At a time while we hear Lucent and a few others are making a lot of noise on the way they are going to invade the world, you look at hard facts: Alcatel has been doing much better in the US than some others are claiming to do in Europe.

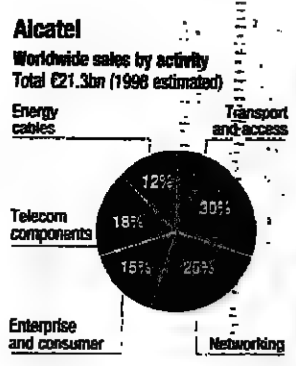
"Whether or not the recent upturn in fortunes and sentiment about the company is durable may hinge in part on whether a theory that the Alcatel chairman hatches on the evolution of the market is correct. Telecoms markets, he argues, are entering a new era. This could be characterised as the age of the integrators.

"There has been a period of a few years where what I call the box-sellers have been very successful on the market," he says. "This I believe is coming to an end. The new game in town is integration ability – end-to-end networking. There are only a few companies worldwide able to carry out this end-to-end networking."

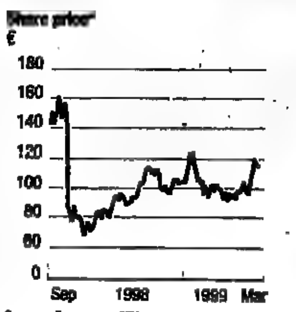
After the trials of recent months, what are his views on the current balance of power between managers such as himself and the owners, or shareholders, who gave Alcatel such a rough ride in the wake of its interim figures?

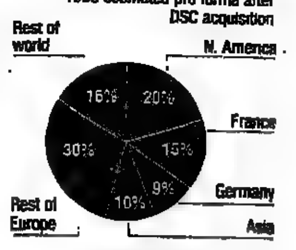
He suggests that the balance may have tilted too far in favour of shareholders, "but I should add that this extreme was probably needed".

"One of the things one has to avoid of course is taking stupid business decisions just to make sure that every quarter you deliver the kind of things that shareholders are expecting. I have seen some examples which are frightening." Is this the ultimate form of short-termism? "Yes, but you know the ultimate short-termism is not that far from what is happening in many companies."




Serge Tchuruk chairman





Morgan chief Mack failed to win promotion

By Tracy Corrigan in New York

John Mack, chief operating officer of Morgan Stanley Dean Witter, failed in an attempt last summer to be promoted to be co-chief executive officer of the company alongside chairman and chief executive officer Philip Purcell, according to people close to the situation.

Mr Mack, widely expected to be the next leader of Morgan Stanley prior to its merger with Dean Witter two years ago, accepted the number two position in the merged company, facilitating completion of the deal.

However, Mr Mack failed to secure Mr Purcell's backing for his move, and this is said to have soured relations between the two, leading to speculation that Mr Mack might leave.

The merger of Morgan Stanley Dean Witter is widely viewed as one of the most successful examples of consolidation within the financial services industry, bringing together Morgan Stanley's top-tier investment banking franchise and Dean Witter's brokerage network.

Although many predicted that the merger would provoke a culture clash between the elitist investment bankers of Morgan Stanley and Dean Witter's brokers, Morgan Stanley Dean Witter's financial performance has made it a star of the investment banking sector.

Last year, it weathered the storm surrounding Russia's debt default and the near-collapse of Long-Term Capital Management much better than most of its rivals, and reported only a 5 per cent dip in earnings in the third quarter and record profits for the year.

Morgan Stanley officials were unavailable for comment. But a spokesperson was quoted in the Wall Street Journal saying: "Mr Mack and Mr Purcell discussed the merits of a co-CEO structure last summer but mutually agreed that such a structure would not provide a better platform for the management of our company". He added the discussions did not indicate that Mr Mack was rebuffed.

Strong sales lift Thomson

By Edward Alden in Toronto

Thomson, the Canadian publishing group, rebounded from a disappointing third quarter to post a 7 per cent gain in fourth-quarter operating profits on strong sales from all five of its divisions.

Thomson pleased investors last year by selling its travel business, disposing of 29 other non-core businesses and completing its restructuring into a pure publishing company. But the share price dropped sharply after higher marketing costs and Year 2000 compliance efforts hurt its third-quarter results. Thomson shares rose C$1.55 to C$38.75 in mid-day trading yesterday, up from less than C$32 on the news from the previous quarter.

In the fourth quarter to December 31, earnings from continuing operations rose from 42 to 45 US cents per share. Revenues rose from US$1.64bn to US$1.86bn on sharply higher sales in its financial, legal and regulatory divisions. The educational, scientific and newspaper divisions, which includes Canada's Globe & Mail, also advanced.

Thomson also reported that 38 per cent of its 1998 revenues came from electronic products, including US$200m in internet sales.

Rejection by DaimlerChrysler leaves Nissan red-faced

The debt-laden Japanese carmaker needs a partner to provide it with badly-needed funds, writes Michiyo Nakamoto

Rejection by DaimlerChrysler comes as a deep embarrassment for Nissan Motor, Japan's second largest carmaker and proud icon of Japanese manufacturing prowess. The group will now have to pick up the pieces and try to find another partner or come up with its own recovery plan.

Not only is Nissan staring at another year of losses – it is forecasting Y30bn in group net losses in the year to March – but it also has a mountain of debt that must be reduced if the group is to remain competitive.

"What Nissan needs now is access to funds and a reduction in costs so that it can invest in competitive products. The problem is that it cannot rely on its banks, so it needs a partner to provide it with a capital injection," says Noriyuki Matsushima, analyst at Nikko Salomon Smith Barney.

Mr Matsushima believes that, given a grace period of three years to put its house back in order, Nissan could stage a recovery. Its expertise in environmentally friendly technologies, for example, will be critical as leading industrialised markets adopt increasingly stringent environmental rules. "Only companies that have such technology will be able to survive, and Nissan is one of them," Mr Matsushima notes.

First and foremost, however, Nissan needs to tackle its Y4,300bn group debt. The plan is to bring debt down to Y1,400bn to enable the company to invest in the future, and to reduce costs by Y400bn by 2000.

Yoshikazu Hanawa, president, has been aggressively cutting costs by divesting non-core assets – it has recently sold stakes in various companies as well as its company headquarters – and consolidating sales channels.

In addition, in a bold move for a Japanese company, Nissan is also addressing the problem of its overcapacity in Japan. The group, which produced just 1.62m cars in Japan last year compared with the peak capacity of 2.3m hit in 1989, will lose 100,000 units of production capacity when it consolidates vehicle production at Aichi Kikai Kogyo into another plant in Tochigi prefecture.

Unfortunately, however, the speed of cost reductions has not been able to keep up with the speed of change, and the competitive pressures, in the auto industry.

That is why Nissan needs a partner to provide not only badly needed funds but also a channel for its technology enabling it to realise economies of scale, says Mr Matsushima. With banks such as Fuji and Industrial Bank of Japan too weak to support a struggling company, an industry partner is Nissan's best hope for getting itself back on the road.

But DaimlerChrysler's decision not to invest in Nissan will raise further speculation about the Japanese company's group debts. Although Nissan publishes its debt figures, there are strong suspicions that group companies, such as Nissan Diesel Motor Sales, also have high debts, which are not revealed.

Sales push: Nissan's stand at the Geneva motor show Reuters

"It will be difficult for Nissan to find another partner," says Chris Richter, analyst at HSBC Securities in Tokyo. "The lesson of Rover and BMW is still fresh enough in everyone's minds that they would be cautious about taking a stake in a company with so many problems."

Renault, which analysts believe is seeking a controlling 33.4 per cent stake, yesterday shed little light on the state of its talks.

However, observers noted that if a deal were to be struck, Nissan would probably want to announce it as soon as possible, and certainly within its current financial year, which ends on March 31.

Both Mr Richter and Mr Matsushima agree that failure to find a parter would have serious consequences. "Nissan doesn't face a static competition – it faces a competition that is hurtling ahead of it," says Mr Richter.

If Nissan has trouble raising funds, the gap between Nissan and stronger competitors, such as Toyota and Honda, could widen further, he warns.

That would give Nissan a much more serious problem than a red face.

German-US group mulls Asia options

By Uta Harnischfeger in Frankfurt and Haig Simonian

The collapse of talks between DaimlerChrysler and Nissan Motor will put new pressure on the German-US group to meet its pledge to generate between 20-25 per cent of sales in Asia, but analysts argue its Asian options are limited.

It could adapt existing models to regional tastes. While the group's Mercedes-Benz marque would be too upmarket, it could try to adapt Chrysler products, or develop a new volume brand for Asia.

Both alternatives, however, face drawbacks. Developing new cars or adapting existing models would take time, while building up local market share would take even longer.

That explains why many analysts argue DaimlerChrysler's best option remains to work with a regional car company. "The way Asian markets are structured, going with [local] partners is the likeliest option," said Christian Breitsprecher, analyst at Deutsche Bank in Frankfurt.

The need for local expertise is compounded by the nature of demand in Asia. Unlike Europe or the US, demand in the region varies widely, and the "one size fits all" approach does not work.

In Japan, for example, access to local dealerships and detailed knowledge of distribution systems are essential.

That suggests Mitsubishi Motors could be DaimlerChrysler's next target. The Japanese car and truck group has a long-standing relationship with Chrysler, previously one of its biggest shareholders. Before DaimlerChrysler's ultimately fruitless talks with Nissan, many expected Mitsubishi to be the group's ultimate Asian partner.

Mitsubishi's exposure has increased after this year's sale by Volvo of its car operations to Ford. The two companies had worked closely in cars, via their NedCar venture in the Netherlands, but few expect Ford to preserve that relationship.

DaimlerChrysler's options in trucks look trickier. Though Mitsubishi, one of Japan's leading truckmakers, could be an alternative, the Japanese group has links with Volvo in commercial vehicles, and the Swedes would probably fight hard to prevent their Japanese partner falling to DaimlerChrysler – probably their biggest rival in the truck market.

Pechiney to float main stake in can business

By David Owen in Paris

Pechiney, the French aluminium and packaging company, is planning to float a majority stake in its beverage can business in a move aimed at speeding the development of other group activities.

The company said yesterday its board had approved in principle an initial public offering project and mandated management to study its feasibility.

It said the operation should be finalised by the end of 1999 if financial market conditions were favourable.

Based on 1998 accounts, the activities to be contributed to the new entity should represent €2.2bn ($2.4bn) of net sales and €197m of earnings from operations. It would be listed on the New York stock exchange.

Jean-Pierre Rodier, chairman, said in an interview that the move would enable Pechiney to use its balance-sheet as well as its cashflow to exploit growth opportunities in aluminium and plastic packaging, which he described as "an extremely dynamic sector" where there is much to be done.

He said the group had too much debt to be able to say it was going to be "very active" in aluminium and beverage cans and plastic packaging.

As at December 31, 1998, the group's gearing stood at 78 per cent against 87 per cent a year earlier.

He said the long-term idea was for the group to sell out of the beverage cans business altogether.

Analysts welcomed the move, saying the valuation of the new entity would depend on its debt structure. "It is an excellent idea for two reasons," said Emil Morfett, mining analyst with J.P. Morgan Securities.

"First, the US beverage can market is a mature market. It is very low growth and aluminium cans have been losing market share over the longer term to plastic and glass bottles.

"Second, it means they will be able to redeploy the capital in other areas which are strategically much more important. Over three-to-four years, you can see major benefits coming through."

Yesterday's developments came as the company reported a 12 per cent advance in annual net income from FFr1.81bn to FFr2.04bn (€310m, $338m).

Earnings per share advanced from FFr22.88 to FFr24.91. The result was achieved on sales down from FFr69.7bn to FFr64.5bn. The company proposed a dividend of €0.80 per 'A' share.

NEWS DIGEST

CONSUMER GOODS

Unilever faces block on anti-cholesterol spread

Unilever, the Anglo-Dutch consumer goods group, has run into unexpected opposition to its plans to launch a cholesterol-reducing spread in the European Union. Two member states have blocked approval of Flora pro-activ, which reduces cholesterol and cuts the risk of heart disease, under the EU's procedure for vetting novel foods.

Germany and Sweden are believed to have asked for further clarification during the 60-day comment period which followed approval by the Dutch novel foods regulator and which ended on Tuesday. Their objections are understood to relate to the principle of marketing functional foods which have the health-enhancing qualities of pharmaceuticals as well as nutritional features. The European Commission can override the objections by majority voting, but may decide to conduct further studies before giving its approval.

Unilever said: "We will continue to to give full co-operation and clarify any questions raised. The novel foods process is crucial in building consumer confidence in functional foods." Benecol, a rival anti-cholesterol spread produced by Raisio, a Finnish food and chemicals group, is not affected by the decision. It is free to launch throughout the EU, having been sold in Finland since 1995 – before Brussels introduced the novel food regulations. **John Willman**

AGRICULTURE

Norske Hydro targets Europe

Norsk Hydro, Norway's largest industrial group, yesterday revealed details of a NKr1.5bn ($191m) operating profit improvement plan targeting its agriculture operations in Europe, its largest and worst performing business. The sweeping restructuring, involving 700 job losses, is the first sign the company is implementing a sweeping NKr5bn restructuring plan announced last month following a 28 per cent fall in 1998 profits.

The fertiliser, energy, metals and chemicals conglomerate plans to realise NKr1.5bn of the identified NKr2.5bn in operating profit improvements by the end of 2001 within the business Hydro Agri Europe.

The company also announced plans to cut NKr1bn in costs through more efficient production, leaner organisations in sales administration and business support and reduction in business development spending. It will improve its purchasing of energy, raw materials and equipment, as well as logistical costs. **Valeria Sköld, Oslo**

GRAPHITE

SGL Carbon downbeat

SGL Carbon, the German graphite producer, yesterday forecast a gloomy year ahead due to the recession in the North American and western European steel industries, as well as the continuing difficult market for semiconductors. It expects this year's operating profit to be even lower than in 1998, when comparable operating profit fell 9 per cent to DM343m (€175.4m, $191m).

Robert Köhler, chairman, said he did not expect demand for graphite electrodes and carbon products to rise in the foreseeable future, but that he expects specialty graphite sales and its technology business to grow in 1999.

Last year, SGL Carbon recorded a DM264m net loss, which was burdened by DM90m in restructuring costs and DM410m in charges related to a pending antitrust investigation in the US. While the company could still profit from a strong first half in 1998, it entered a deep trough in the fourth quarter, it said. **Uta Harnischfeger, Frankfurt**

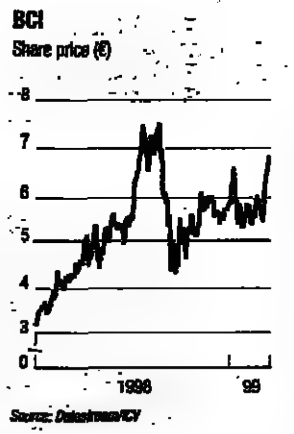
FOOD RETAILING

Supersol earnings stall

Supersol, Israel's largest food retailing store, yesterday reported sluggish earnings for last year, with profits under pressure from increasing competition, previous unsuccessful diversification and an economic slowdown. Net income, which includes a one-time net gain of Shk16m, amounted to Shk127m ($31.5m) compared with Shk121.5m in 1997. Revenues rose slightly to Shk5.13bn from Shk4.94bn over the same period. Earnings per share fell Shk0.10 to Shk0.60. There was some pickup over the last quarter, with sales rising from Shk1.22bn to Shk1.26bn but net income fell by nearly Shk10m, to Shk26m despite a net capital gain of Shk10m. **Judy Dempsey, Jerusalem**

BANKING MILAN GROUP SEEN AS NEXT CANDIDATE FOR TAKEOVER

BCI shares soar on merger speculation



Source: Datastream/ICV

By Paul Betts in Milan

Banca Commerciale Italiana, the Milan privatised bank widely regarded as the country's next large banking merger candidate, was yesterday at the centre of intense takeover speculation, which pushed its share price up 8.59 per cent.

After late heavy trading on the Milan stock exchange, BCI shares closed at a high for this year of €6.93. The sharp rise followed market rumours that a bid for BCI was being prepared by UniCredito, the banking group formed by the recent merger of Milan's Credito Italiano and three north Italian regional banks. Speculation of a possible move on BCI by another large north Italian banking group has intensified following last week's alliance between Banca di Roma and ABN Amro, the Dutch banking group.

BCI and Banca di Roma have been involved in on and off merger talks for the past 12 months. But the Banca di Roma deal with the Dutch group has been widely regarded as bringing to an end any merger with BCI.

UniCredito, whose shares also rose more than 5 per cent yesterday, last night denied it was preparing a bid for BCI.

Milan banking analysts said they would be surprised to see UniCredito mount an unsolicited bid for its Milan rival. They added that any eventual deal would probably have to be negotiated on a friendly basis because BCI's core shareholding base included several heavy weights of Italian finance and business.

However, the analysts did not rule out the possibility of the two sides moving closer now that Banca di Roma had forged its Dutch alliance.

San Paolo-IMI, the banking group based in Turin, has also been regarded as a possible merger partner for BCI. The Turin group had studied such a scheme before BCI entered into a new round of negotiations with Banca di Roma last year.

Although San Paolo-IMI recently acquired a 2.1 per cent stake in BCI, the Turin group yesterday reiterated that the stake was a trading investment and did not constitute the start of a strategic collaboration with the Milan bank.

Danish bank and insurer merge

By Clare McCarthy in Copenhagen

Consolidation in Nordic financial services took a step forward yesterday as Denmark's third largest bank said it would merge with the country's leading non-life insurer.

The move creates the region's seventh biggest financial services group, with a market capitalisation of DKr34bn ($5bn).

Unidanmark and the insurer Tryg-Baltica said they would unite their operations retro-actively to January 1, 1999 under the name Unidanmark A/S. Tryg-Baltica shareholders will receive three Unidanmark shares for every eight Tryg-Baltica shares held.

Although the deal is being billed as a merger of equals and there will be a 50:50 board split, Unidanmark dwarfs its new partner in terms of assets and earnings.

The banking group posted net profits of DKr2.8bn in 1998, while the insurer posted DKr954m net profits. "The new entity will be a leading Nordic bank assurer and will be very well positioned for continued competition and consolidation in Scandinavia," said Robin Lowther, managing director, investment banking at J.P. Morgan in London.

The deal is the latest in a wave of consolidation which has swept Nordic financial services, and the partners stressed that yesterday's deal did not signal the end of the consolidation process.

"I wish to emphasise that Unidanmark is interested in participating in further consolidation in the Danish financial sector and is also open to participation in the ongoing restructuring of the Nordic financial services market," said Thorleif Krarup, Unidanmark's chief executive.

Analysts said that prior to the deal, Unidanmark was widely viewed as possibly the Nordic banking group most vulnerable to a takeover bid by an outside bank.

Recent restructuring in the Nordic region includes last month's announcement by the insurance groups Storebrand of Norway and Sweden's Skandia of a plan to merge non-life operations.

Unidanmark A/S will be the second largest financial services company in Denmark, with 45 per cent of the population as customers.

Unidanmark closed DKr23 higher at DKr465 a share while Tryg-Baltica ended DKr2 ahead at DKr174.

Prague firms up sale of banks

By Robert Anderson

The Czech government yesterday agreed a firm timetable for the privatisation of the country's two biggest banks and moved to double the share capital of one ahead of its sell-off.

The Social Democrat cabinet, which was initially hesitant about bank privatisation, decided to issue a tender at the end of next month for the sale of its 45 per cent stake in Ceska Sporitelna, the main retail bank, with a view to receiving final bids by the end of October.

The process for the sale of the state's 49 per cent stake in Komercni Bank, the country's biggest, would begin in June, with final bids expected in December.

A shareholders' meeting of Ceska Sporitelna also agreed yesterday to increase the bank's Kc7.6bn ($220m) share capital by between Kc5bn and Kc7.6bn and made extensive board changes.

Most of the supervisory board was removed and four out of seven members of the main board were recalled, including Jaroslav Klapal, chairman and chief executive. Dusan Baran, an existing board member, was chosen as Mr Klapal's replacement.

The move follows recent board changes at other state-owned companies by the government but also complies with a condition of the European Bank for Reconstruction and Development (EBRD) for participating in the equity increase.

The EBRD, which bought 11.8 per cent of the bank last June for Kc2.5bn, demanded to see board changes leading to the appointment of managers with international banking experience, a clear privatisation timetable and to check its financial state before it would participate.

● BNP, the French bank, said yesterday it was pulling out of the tender to buy the state's 66 per cent stake in Ceskoslovenska Obchodni Banka, the country's fourth largest bank. BNP said it would concentrate on its bid for Paribas and Société Générale in France. Its withdrawal leaves Deutsche Bank and Bayerische HypoVereinsbank of Germany and KBC of Belgium in the tender, for which final bids are expected next month.

NEWS DIGEST

AIRLINES

Lufthansa boosted by sale of Hapag-Lloyd

Lufthansa, Germany's flag carrier, yesterday published better-than-expected 1998 core earnings data, but did not reveal the widely awaited operating profit figure. Lufthansa said that its 4.6 per cent rise in revenues to DM22.6bn (€11.5bn, $12.6bn) stemmed from increased capacity utilisation and sustained cost-cutting. Earlier this week, Lufthansa warned it may be unable to sustain its 73.7 per cent capacity utilisation in 1999. That warning was in line with earlier comments by Jürgen Weber, chairman, who remained cautious about the year ahead.

Boosted by an extraordinary gain of DM377m from the sale of its stake in Hapag-Lloyd, Lufthansa showed a 40 per cent rise in its pre-tax profit to more than DM2.4bn.
Uta Harnischfeger, Frankfurt

BUILDING MATERIALS

Lafarge advances 26%

Lafarge, the French building materials group, yesterday reported a 26 per cent advance in net attributable profit to FFr3.06bn (€466m, $505m). Earnings per share climbed 19 per cent to FFr32.30. Turnover rose 53 per cent to FFr64.3bn, in an advance attributed principally to the integration of Redland, the UK tiles and aggregates company acquired in late 1997.

Operating performance rose 63 per cent, reflecting increased activity in western Europe, outside Germany, and Latin America, "excellent" conditions in North America and a favourable pricing environment. The company proposed a net dividend of FFr12 a share, up from FFr11.
David Owen, Paris

TURKEY

IşBank widens operations

IşBank, Turkey's largest bank and the country's biggest quoted company, is negotiating to buy a health service provider and will buy utilities as part of a new strategy of seeking synergies with financial services. Ersin Ozince, chief executive, said the bank would consider bidding in a consortium for the government's planned sale later this year of a 25 per cent strategic stake in Türk Telekom, a company valued at around $10bn. **Leyla Boulton, Ankara**

Telecom Italia prepares defence

By Paul Betts in Milan

Details emerged last night of how Telecom Italia is to defend itself against a hostile takeover bid from Olivetti, its smaller Italian telecommunications rival.

Telecom Italia is to seek shareholder approval for: merging the company with Telecom Italia Mobile – its 60 per cent-owned cellular telephone subsidiary; converting Telecom Italia non-voting savings shares into ordinary voting shares; a share buy-back for up to 10 per cent of the company's capital; and a series of disposals.

These measures are designed to fend off Olivetti's €53bn ($58bn) hostile bid for Telecom Italia by significantly raising the cost of any takeover.

Telecom Italia's board was meeting in Rome last night to approve the package. A draft of the measures was leaked by Ansa, the Italian national news agency. Telecom Italia officials declined to comment on the draft.

If approved by the board, which is widely expected, the measures will be submitted for approval at a shareholders meeting on April 12. The four main defences, according to Ansa, are:

● A public share exchange offer for the entire capital of TIM to merge the cellular unit with Telecom Italia. This is expected to be launched 10 days after approval by shareholders. The merger of Telecom Italia and TIM is an integral part of Telecom Italia's industrial strategy but will also increase the overall value of the group by about €20bn.

● The conversion of Telecom Italia savings shares into ordinary voting shares by issuing a free warrant for every ordinary and savings shares to be exercised within seven days. These warrants will be quoted and traded on the stock exchange for five days. Investors will receive 10 ordinary Telecom Italia shares in exchange for 34 warrants together with 10 savings shares. This would also substantially increase the cost of a takeover bid.

● The company is proposing to buy back up to 10 per cent of its outstanding shares for up to €9bn. The maximum price for the share buy back would be €15 a share or 50 per cent more than Olivetti's current offer of €10 a share in cash, bonds and equity.

● Disposal of non-core assets. Within a year, the company is considering selling its property portfolio as well as other subsidiaries including the Sirti engineering unit, Meie insurance business and the Finsiel information technology services subsidiary.

The board last night was also expected to consider the group's preliminary 1998 results showing a 40 per cent rise in group net profits to L3,800bn (€1.96bn, $2.13bn) on a 5 per cent rise in revenues to L45,000bn.

According to the draft, the business strategy of Franco Bernabe, Telecom Italia chief executive, envisages an average annual increase of the group's gross operating margin of 8 per cent.

Telefónica resurrects TPI spin-off

By Tom Burns in Madrid

Telefónica, Spain's leading telecommunications company, plans to put part of its Yellow Pages unit, TPI, on the market within the next three months.

This would set in motion a long-awaited spin-off strategy likely to include the flotation of its mobile and international telecommunications businesses.

The disposal of up to half of TPI was announced last year to raise funds for a €4.9bn ($5.33bn) acquisition drive by Telefónica in Brazil. The unit was valued at the time at €1.2bn but it could now be close to €2.9bn.

The renewed decision to float TPI could now however reflect the climate of uncertainty created in the telecommunications industry by Olivetti's €53bn hostile bid for Telecom Italia, industry sources said.

They also believe Telefónica could become a take-over target and appears to be mapping out a defensive strategy. This would consist of placing some of its key units on the market, while retaining majority control, so that the sum of its parts will multiply group's equity value and thereby ward off potential raiders.

The decision to float TPI is understood to have been fuelled by the successful market debut of Telecom Italia's yellow pages unit, Seat.

Its market capitalisation of some €39.5bn has raised concerns that it is vulnerable to predators in the industry. The figure contrasts with Telefónica's own estimates that the group's value is closer to €65bn.

CIGARETTES SHARE PRICE HIT AS ANALYSTS GIVE MIXED RESPONSE TO PURCHASE OF RJR NABISCO DIVISION

RJR buy depresses Japan Tobacco

By Alexandra Nusbaum in Tokyo

Shares in Japan Tobacco fell 4.76 per cent yesterday after some investors were startled by the company's announcement that it would buy the international tobacco business of RJR Nabisco, the US food and tobacco group.

The acquisition is thought to be the largest made by a Japanese company in foreign markets, although precise comparisons are difficult because of exchange rate volatility.

Japan Tobacco said it would pay $7.83bn in cash and $200m in debt to acquire the rights to cigarette brands such as Camel, Winston and Salem. In 1990, Matsushita Electric paid $6.1bn for MCA.

Some analysts interpreted the drop in share price as a sign that Japan Tobacco had overpaid.

However, others argued that even though the price was high, the deal made sense for Japan Tobacco from a financial and strategic perspective.

The stock, which has outperformed the Topix index since late 1997, closed down Y50,000 at Y1m.

"In terms of brand equity and costs, the purchase represents a rational decision for the company, although JT faces a premium for buying a company unit the size of RJR," said Yuji Fujimori, analyst at Goldman Sachs.

"The deal is value-creating for Japan Tobacco. They have no debt, so their weighted average cost of capital is high. By gearing up, they can lower their cost of capital and expand net returns," said William Gallagher, head of research at Schroders Japan.

Japan Tobacco said its strategy was to find synergies with RJR's marketing and distribution arms.

However, analysts expressed concern over Japan Tobacco's ability to effectively manage the combined entity.

"Japan Tobacco is a domestic company, and the managers are Japanese," said Mr Gallagher. "But it will become one of the top three global companies and will have to compete with companies that have a global vision. Can they learn the global game from the guys at RJR?"

The concern partly reflects the dismal record that many Japanese companies have had in their past US acquisitions, particularly high-profile deals concluded during the 1980s, when Japanese companies were scrambling to build global empires.

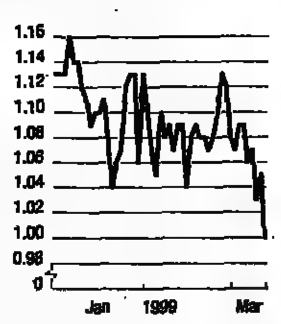
However, analysts argue that these acquisitions were largely considered trophy assets, and were not driven by domestic strategic needs.

By contrast, Japan Tobacco's acquisition of RJR's tobacco business has been triggered partly by the weak domestic market, which is weighed down by Japan's worst recession in post-war history.

Japan Tobacco is two-thirds government-owned and controls roughly 80 per cent of the domestic tobacco market with its top-selling brand, Mild Seven. Worldwide, the company ranks fourth, says Mr Fujimori.

The company will have estimated sales of Y3,760bn ($31bn) and net profit of Y65bn for the year ending March 1999.

Japan Tobacco
Share price (yen m)



Source: Datastream/ICV

Japanese smokers: the domestic market is weak — Reuters

Mandarin hotels pushed into red

By Louise Lucas

Asia's economic, currency and political upheavals last year took their toll on Mandarin Oriental International, the hotels arm of the Jardine group, pushing it into the red for the first time. The group reported a loss of US$4.3m, compared with a net profit in 1997 of $45.7m.

Underlining directors' bearishness, the dividend is again being cut. The total annual dividend of 1.35 cents is 61 per cent below the 1997 payout, reflecting the net loss, the group's existing and anticipated capital commitments, and the continuing depressed state of Asia's hotel industry.

Profits were hit by declining tourism and business travel, as well as provisions made for the devaluation of certain properties. The group wrote off non-recurring items of $23.8m compared with $9.2m in 1997.

Simon Keswick, chairman, warned that little improvement in travel and tourism around Asia – home to most of the group's luxury hotels – was expected this year. Other hoteliers have expressed similar sentiments.

Both the group's Hong Kong hotels made significantly reduced contributions – trading profits from Hong Kong and Macau halved last year – and weak currencies in the Philippines and Indonesia were blamed for declining performances there.

Earnings per share last year fell from 6.51 cents to a loss of 0.61 cents. Excluding non-recurring items, earnings per share fell 65 per cent, from 7.81 cents to 2.77 cents.

Dairy Farm bucks trend with 38% earnings rise

By Louise Lucas

Dairy Farm proved a rare bright spot for the Jardine group in Hong Kong's bleak reporting season. The international retailing arm yesterday reported a 38 per cent rise in net earnings, from US$112.4m in 1997 to $155m last year.

The results were boosted by $12.4m worth of exceptionals: principally a $109.9m profit on the sale of Simago, its Spanish supermarket chain, and its stake in Kwik-Save of the UK; offset by write-downs in Indonesia and property devaluations. The company also managed to increase profits at the operating level, from $118.4m to $151.9m.

The results suggest that management's latest strategic efforts to turn round the once ailing company are taking effect. Ronald Floto, group chief executive, said the repositioning has transformed Dairy Farm from a retail holding company to a decentralised retail operating company.

"The business simplification, clarity of focus and sharing of upgraded group resources have been important elements in our ability to achieve earnings improvements during the difficult economic circumstances of 1998," he said.

Although retail spending fell sharply in Hong Kong last year, supermarkets were least affected. In Australia and New Zealand there were modest sales increases at Dairy Farm's stablemates, but these were more than offset by exchange rate movements.

Profitability increased at Wellcome, the Hong Kong supermarket chain, and Mannings, the pharmacies. Franklins, the Australian supermarket, continued its recovery, lifted by the move towards fresh foods and efficiency initiatives. Franklins almost trebled its operating profit from A$21m in 1997 to A$63m (US$40m).

But this year brings more challenges, including the threat of deflation and increased competition. Mr Floto predicts operating losses as high as $10m in Taiwan, and its Chinese operation is still loss-making.

Basic earnings per share rose 35 per cent, from 6.26 cents to 8.46 cents. Excluding discontinued activities and exceptional items, basic earnings per share rose 9 per cent from 7.26 cents to 7.89 cents. The total annual dividend is to be kept at 8 cents.

Hongkong Land sees no sign of recovery

By Louise Lucas in Hong Kong

Hongkong Land, one of the territory's biggest landlords, yesterday reported a 68 per cent drop in net profits and warned that the gloom over the property sector is unlikely to lift soon.

"We do not see any early prospect of recovery in the Hong Kong commercial property market," said Simon Keswick, chairman.

Net profits fell from US$392.4m in 1997 to $125.6m last year after the company made $247.6m worth of provisions against its properties and other assets.

The slump was in line with market expectations. Hongkong Land's results come amid a corporate reporting season which has been marked by big provisions and tumbling earnings, and the devaluation on its own portfolio reflects the fall in property values.

The annual valuation of the group's investment properties, conducted by independent valuers at the end of last year, produced an annual net valuation deficit of $3.47bn. Mainly due to this, shareholders' funds at the year-end slumped 44 per cent, from $8.53bn to $4.92bn.

Hong Kong property prices have more than halved from the peaks in September 1997, and the impact on commercial buildings – where rents are typically set for three years – will continue into next year.

Exacerbating the pressure on office and retail rents is new supply, with many newcomers offering hefty rent-free periods, in addition to attractive rents, in a bid to lure tenants.

Hongkong Land is responding by upgrading and redeveloping some of its older buildings, and diversifying its portfolio to infrastructure and property in other parts of Asia.

Geoffrey Palmer, property analyst at CSFB, is forecasting a fall in profits of 21 per cent, after stripping out last year's provisions, to $289.7m. This represents a rise of 141 per cent on last year's net earnings.

Earnings per share last year fell 67 per cent, from 15.02 cents to 4.97 cents; stripping out exceptionals, earnings dipped 6 per cent, from 15.60 cents to 14.64 cents. Shareholders are to receive a 9 cent dividend, 25 per cent less than last year.

NEWS DIGEST

CELLULAR PHONES

Nissan Motor reviews its TU-KA capital links

Nissan Motor is reviewing its capital affiliations with a group of nine TU-KA cellular phone operators, as part of its plan to cut its liabilities and rehabilitate its core carmaking operations, Nissan said on Wednesday.

Nissan may consider selling off its shareholdings in these TU-KA group companies, the sources said. Among the nine, Nissan Motor has a 27 per cent equity stake in TU-KA Cellular Tokyo Inc and TU-KA Cellular Tokai. The cellular phone company DDI has stakes of the same size in the two companies.

Nissan Motor is the biggest shareholder in almost all the remaining seven TU-KA group companies.

Nissan Motor has been pressing ahead with a plan to reduce sharply its interest-bearing liabilities by Y1,000bn ($8.23bn) since the spring of 1998. Should Nissan sell off all its shareholdings in TU-KA group companies, it "would be able to pocket proceeds worth several tens of billions of yen", a securities company analyst said.

Carmakers have kept a presence in the cellular phone business because of its direct bearing on the "Intelligent Transport System" (ITS), a next-generation telecommunications system to improve safety in driving.

Nissan's arch-rival, Toyota, is the top shareholder in Nippon Idou Tsushin, another big cellular phone operator.

Last December, Nissan set up a company to devise strategies for next-generation cellular phone services in conjunction with Japan Telecom. **Kyodo, Tokyo**

SOUTH KOREA

DHI transfers vehicle unit

Daewoo Heavy Industries (DHI) is to transfer its vehicle division to its sister subsidiary, Daewoo Motor, South Korea's second largest carmaker.

DHI, Korea's second biggest shipbuilder, began vehicle production in the early 1990s to counter a decline in ship orders, that have since recovered.

DHI said it was taking the action to focus on its core shipbuilding business and improve productivity. DHI makes commercial vehicles, buses and the popular Matiz sub-compact car.

Meanwhile, Daewoo Corporation, the parent company for the Daewoo group, reported a 64 per cent jump in 1998 net profits to Won88.2bn ($71m), largely because of robust sales of the Matiz in overseas markets. Sales rose by 54 per cent to Won36,890bn. The higher profits also reflected foreign exchange gains on exports as the Korean currency dropped against the US dollar last year.
John Burton, Seoul

CHINA TELECOM

Internet customers 'to double'

China Telecom, the telecommunications company, said yesterday it expected to double its internet customers to 3m by the end of this year.

"We expect the number of our internet users to be double from that in 1998 to about 3m by the end of 1999," said Yin Yiping, director of the data communications bureau of China Telecom.

He said China Telecom had 400,000 internet customers in China at the end of 1997. The number grew to 1.5m at the end of 1998.

China had about 2.1m internet users in total at the end of 1998, Mr Yin added.

He said the number of internet users would grow rapidly after the launch of Microsoft's Venus project, which aims to bring low-cost internet access to China.

"We expect the number of internet users will increase very quickly, but it will depend on when it [Venus project] will be launched," Mr Yin added. **Reuters, Shenzen**

MEDIA SHARES FALL ON PROFIT-TAKING AND DOUBTS ON OPERATING PERFORMANCE DESPITE RESULTS MEETING EXPECTATIONS

Pearson achieves earnings growth target

By John Gapper

Weakness in the international operations of Simon & Schuster, the US educational publisher bought by Pearson for $4.6bn late last year, was partly responsible for a dent the share price of the UK media company yesterday.

Shares in Pearson fell 6 per cent on profit-taking and doubts about the group's operational results, although it met both a double-digit earnings growth target, and analysts' profit forecasts.

Pearson said it was pleased with early results from Simon & Schuster, despite the downturn in its Latin American and Asian businesses, and a rise in the likely integration charge to $300m rather than an earlier estimate of $270m.

The group, which publishes the Financial Times, will spend £14m on giving each of its 13,000 eligible employees a 3 per cent bonus, together with 15 free shares to mark its 20 per cent growth in underlying earnings per share.

Pre-tax profits for 1998 jumped from £129m to £629m ($1.01bn). The figures included a £212m provision to cover the sale of Mindscape in 1997, and a £215m profit on the sale of businesses, including Tussauds, in 1998.

The Financial Times raised operating profits 20 per cent to £42m because of rising international circulation, but operating profits at Penguin Books fell 17 per cent to £48m after restructuring costs.

Marjorie Scardino, chief executive, said it would be "hard to draw any conclusion other than that these were outstanding results" but acknowledged the shares were highly rated on expectations of future growth.

She said the FT would reach its target of selling 100,000 copies a day in the US by the year-end, and FT.com, its internet site, had drawn £3m in advertising revenue last year – more than any other UK website.

It was determined to succeed with its joint venture German language business paper, which it is to publish with Gruner + Jahr, the German publishing company. "We will invest as much as we need to make it work".

John Makinson, finance director, said Simon & Schuster had made a strong start within Pearson in selling its education titles in the US, but there had been "a less happy story internationally". He said Pearson would consider a secondary listing on the New York Stock Exchange later this year. This would give it greater flexibility to reward US-based staff, who now comprise half the total, with equity.

Turnover rose 4 per cent to £2.4bn. The shares closed 85p down at £13.37.

Applied Graphics joins race for Wace

By David Blackwell

Applied Graphics Technologies of the US yesterday became the third bidder for Wace, the digital imaging group, with a £57m ($92m) offer for the ordinary shares.

The offer from the Nasdaq-listed group – equivalent to 72p a share – represents a small premium to the 70p a share offered by Schawk, another US digital imaging company. Schawk emerged in January as a white knight when Wace was under siege from Photobition, its UK rival. The shares closed unchanged at 74½p.

Wace said AGT had not made an offer for the preference shares, and was seeking clarification. Both Schawk and Photobition made offers worth £39.2m for the preference shares.

Huntington Partners of the US, which has 20 per cent of Wace, will seek further details from AGT over the preference shares. But Blane Reike, a Huntington fund manager, said the 3 per cent increase over Schawk's offer for the ordinaries was "far below what we think the group is worth".

Observers suggested AGT was testing the water. One said there was a danger the two bidders could end up "fighting over something that is already overpriced".

AGT, advised by Lazard Brothers, said it was considering making additional proposals in relation to the preference shares. These could involve the issue of AGT loan notes along similar lines to the Schawk offer.

Aggregate Industries advances 68%

By Charles Pretzlik

Aggregate Industries, the building materials group whose planned £1.8bn ($2.9bn) merger with rival Tarmac foundered in December, yesterday reported a 68 per cent jump in 1998 profits.

Pre-tax profits rose from £45.4m to £76.1m last year, the first full year of figures since the merger of Bardon and Camas which gave the group its current shape in May 1997.

Turnover rose 39 per cent to £833.7m (£600.7m).

Figures for 1998 were flattered by only a five-month contribution from Camas in the 1997 result.

On a pro-forma basis, the total operating profit rose by 31 per cent to £101.8m on a 16 per cent increase in sales.

Peter Tom: 'we are very confident about where we are likely to be in the first six months of this year' Chadwicks

Peter Tom, chief executive, said: "We had a very strong finish to the year and that's continued into the first two months of this year.

"We are therefore very confident about where we are likely to be in the first six months of this year."

He said he expects aggregate prices to rise by 6 to 7 per cent this year amid flat volumes.

Last year volumes increased 3 per cent and prices rose 7 per cent.

"For the UK, we feel more confident now than in November," Mr Tom said.

He said there had been no further talks with Tarmac and "it would be very difficult for talks to be revived."

The company is proposing a final dividend of 1.26p (1.2p), lifting the total 5 per cent to 2.1p.

Earnings per share rose from 2.9p to 4.3p.

Analysts expect pre-tax profits this year of about £88m. They said Aggregate was under some pressure to find a merger partner but its healthy balance sheet and solid business should help it.

The shares, which yesterday rose 4½p to 77½p, trade on a forward p/e of 15, which analysts said was deserved.

BICC considers withdrawal from cables

By Michael Peel

BICC, the UK engineering group in the throes of restructuring, yesterday signalled that it might consider leaving the highly competitive world cables market.

The group, which has underperformed the stock market by almost 80 per cent in the past five years, said it would focus on developing its railway engineering, project finance and asset management operations.

BICC's cables division, which has annual sales of £1.5bn ($2.45bn), has suffered for a number of years from overcapacity among manufacturers in the sector. Demand has fallen away as potential customers have come under pressure from deregulation, privatisation and cuts in government spending.

Alan Jones, chief executive, said the group was still finding cables markets tough despite signs of an upturn as the sector consolidated. He refused to rule out a disposal of the division, saying the group would almost certainly undertake "some form of rearrangement" of the businesses over the next five to 10 years.

Mr Jones said railway engineering, project finance and asset management operations offered the best growth prospects. They account for about two-thirds of the engineering, maintenance and construction division's sales of £2.2bn.

His comments came as he revealed that the group was hit last year by £164m of exceptional costs relating to the cables division. The charges pushed the company into a pre-tax loss of £94m, on sales down 11 per cent at £3.67bn.

The exceptional charges consisted of restructuring costs of £35m, losses and provisions on disposals of £33m and a £106m asset write-down. Pre-exceptional operating profits from the cables division fell from £74m to £19m after a plunge in the price of optical fibres and cables, signalled by the group in October.

Mr Jones said the group had "done all the right things" to improve the performance of the cables division. It had reorganised its European businesses and sold its telecommunications cables and optical fibres interests to Corning, the US glass manufacturer.

Strong pound hits Albright

By Lucy Smy

Albright & Wilson, the UK chemicals company, yesterday confirmed the weak trading that turned it into a bid target as it reported a 13 per cent drop in annual operating profits.

The company said the strength of sterling and the devaluation of Asian currencies had knocked £7m ($11.3m) off its profits on translation, and lost exports to Asia as a result of currency effects cut a further £6m from the bottom line.

Albright's management, which this week recommended a £408m bid – worth 130p a share – from Albemarle, the US chemicals group, said the tough trading conditions of last year would continue into the first half of 1999.

The group has also attracted the attention of Rhodia, the French chemicals group, which is expected to decide whether to bid by the end of the week.

In the year to December 31, operating profit on Albright's UK operations – 30 per cent of its business – fell by more than half from £24.6m to £11.6m as the strength of sterling cut sales of Albright's surfactants and phosphates.

As an example, Paul Rocheleau, chief executive, cited the decision of Procter & Gamble to relocate one of its haircare product factories to France and source its surfactants – wetting and foaming agents – locally. The haircare industry is one of the biggest customers for surfactants.

Operating profit grew however, in continental Europe to £14.4m (£12.5m) and in the Americas from £21.4m to £26.1m, while the Asia-based operations had fallen only slightly from £9.9m to £7.6m.

In spite of a rise in turnover to £814.9m (£784.9m) operating profit fell from £66.4m to £59.7m. Pre-tax profit of £48.3m compared with £31.7m, after an exceptional charge in 1997 of £28.9m.

Euromoney may float in US

By Cathy Newman

Euromoney Publications is making preliminary plans for a stock market listing in the US, a move that could see Daily Mail & General Trust, its biggest shareholder, dilute its stake.

Euromoney executives have been meeting institutional shareholders in the US in the past few weeks to raise the financial publisher's profile there.

The company has made substantial North American acquisitions in the past few years. In August 1997 it paid $142m to buy Institutional Investor, the US financial magazine. In January, Euromoney raised its US presence by buying an 80 per cent stake in Internet Securities, which provides information on emerging financial markets via the internet.

Padraic Fallon, chairman, said: "When you have a brand name as powerful as Institutional Investor, you'd be maximising shareholder returns if you made sure the market was aware of how exposed you are to the US. So you'd have a flow of information which would be accompanied by a listing."

That could result in DMGT, the publisher that owns 71 per cent of Euromoney, selling some of its stake to improve the liquidity of the shares.

However, Mr Fallon said that a US listing would probably not proceed for two years, until Euromoney started to "capture the upswing in the markets".

The group has been hit by the economic turbulence in Asia, particularly its Asia Money title.

Mr Fallon said the company was more likely to list on the New York Stock Exchange than Nasdaq. The London listing will remain.

Cordiant pledge on independence

By Richard Tomkins

Cordiant Communications, the advertising group that demerged from Saatchi & Saatchi at the end of 1997, yesterday sought to counter bid speculation by vowing to remain independent.

Michael Bungey, chief executive, said he regarded it as part of his job "to have chats with other people", but Cordiant was not involved in takeover talks. Unless an offer was presented that offered "amazing value", he said the company aimed to get on with increasing shareholder returns by winning new business and raising operating margins.

Cordiant, parent of the Bates Worldwide agency, has been cited as a potential target for several companies, including WPP and True North Communications.

Cordiant yesterday reported a 13 per cent increase in pre-tax profits to £25.9m ($41.7m) for its first year as an independent entity. The increase would have been 20 per cent at constant exchange rates, the company said.

Revenues for 1998 fell from £307.6m to £301.8m, but rose 5 per cent on a constant currency basis. Net new business more than doubled, rising from $250m to $580m.

In the UK, profits fell because of lumpy profit contributions from HP:ICM, its special events subsidiary, and the loss of a large client. But US profits were well ahead: new business included work for British American Tobacco and Warner-Lambert.

The company has won $100m of new business in the first two months of this year.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abbot	Yr to Dec 31	191.2	(155.3)	16.9	(15.2♥)	8.4†	(7.8)	2	June 4	1.8	3	2.5
Aggregate Inds	Yr to Dec 31	833.7	(600.7)	76.1	(45.4♠)	4.3†	(2.9)	1.26	July 9	1.2	2.1	2
Albright & Wilson	Yr to Dec 31	814.9	(784.9)	48.3	(31.7♠)	10.8	(4.7)	4.8	May 27	4.8大	7.15大大	7.15大大
BICC	Yr to Dec 31 ★	3,975	(4,478)	94L♠	(30L♠)	32.6L	(19.5L)	2	July 1	4	6	8
Biotrace Intl	Yr to Dec 31	10.4	(6.96)	1.25♠	(0.552)	2.16	(1.79)	nil	-	nil	nil	nil
Bowthorpe	Yr to Dec 31	587.6	(540.6)	92.1	(85.5)	26.75	(26.23)	8.58	July 1	7.8	12.28	11.23
Cairn Energy	Yr to Dec 31	41	(58.3)	71.6L♠	(15.8♠)	44.23L	(4.57)	-	-	-	-	-
Church	Yr to Dec 31	81.6	(80.8)	5.8	(5.8)	36	(35.79)	14.2	May 10	13.5	18	17
Cordiant Comms	Yr to Dec 31 ☿	301.8	(307.6)	25.9	(23♠)	6.7	(5)	1.4	June 2	1.2大	1.4	1.2大
Countrywide Assured	Yr to Dec 31 ★	256.8	(247.5)	56.7♥	(52.9)	12.73	(15.5)	2.5	May 10	2	3.5	3
Headway	6 mths to Dec 31	10.6	(11.3)	0.589	(0.872)	2.8	(3.9)	0.65	May 7	0.65	-	2
Heywood Williams	Yr to Dec 31	690.1	(632.8)	63♥	(43.7♥)	52.1	(29.8)	9.25	May 5	8.8	14.25	13.8
Holmes Place	Yr to Dec 31	37.1	(25.9)	7.25	(5.42)	8.61†	(8.06)	2	May 7	3	3.5	3
IAWS €	6 mths to Jan 31	365.1	(380.3)	12.9	(9.68)	8.26	(6.11)	2.459	Apr 1	2.138	-	4.49
Mallett	Yr to Dec 31	18.6	(15.2)	5.23	(3.18)	25.92	(16.12)	4.3	May 21	3.1	5.8	4.4
Matalan	53 wks to Jan 2	278.2	(229.6)	22.7♠	(12.7)	19.4†	(11.8)	5.5	May 21	-	5.5	-
Mowlem (John)	Yr to Dec 31	1,506	(1,409)	39.4	(12.4L♠)	12.3‡	(12.6L)	3	July 1	2.5	5	4
Pearson	Yr to Dec 31 ★	2,395	(2,293)	629♥	(129♠)	74.1†	(6.6)	13	June 4	12	21	19.5
Pentland	Yr to Dec 31 ★	533	(653.1)	3.5L♠	(41.6♥)	5.19L‡	(6.97)	2.32	July 1	2.21	3.86	3.68
PTS	Yr to Dec 31	109.6	(91.5)	4.01	(3.05)	10.8†	(8.3)	2.85	May 6	2.7	4.2	4
Rage Software	6 mths to Dec 31	3.06	(0.87)	0.61	(0.35L♥)	0.18	(0.14L)	nil	-	nil	-	nil
Springwood	Yr to Dec 31 ★	9.77	(14.5)	1.4♠	(1.33♠)	6.31	(6.11)	1.5	May 7	1	1.5	1
Terranova Foods	Yr to Dec 31	457	(410)	35.5♥	(26.3)	18.6	(10.6)	2.8	May 25	-	2.8	-
Tibbett & Britten	Yr to Dec 31	1,137	(924.2)	28	(28.2)	39.3†	(41)	14.1	May 28	13	20	18.5
Xenova	Yr to Dec 31	4.87	(1.09)	13.9L	(13.4L)	49L	(57L)	-	-	-	-	-

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Dartmoor	9 mths to Jan 31	157.22	(146.34)	5.82	(5.7)	9.95	(11.42)	3.25§	Mar 31	3.1	-	13.4
Framlington Dual	6 mths to Jan 11	189.3	(273.9)	0.657	(0.744)	2.86	(3.24)	1.9#	Apr 30	1.9	-	7.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. 大Foreign income dividend. 大大Includes FID element. ★Comparatives restated. ☿Comparatives pro forma. €Euros. ‡On reduced capital. §Third interim; makes 9.75p to date. #Second interim; makes 3.65p to date.

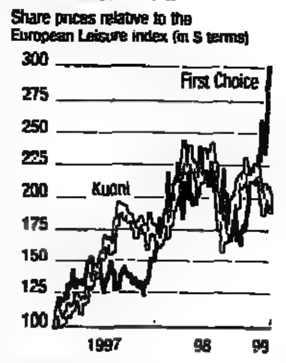
COMMENT

First Choice/Kuoni

First Choice's shareholders should do better than this nil-premium merger with Switzerland's Kuoni. Sneaked into the market late on Budget day, it offers the UK tour operator's shareholders just 47 per cent of the new company, smack in line with their relative market values. But as the last piece of the consolidating UK market likely to come up for grabs, First Choice's 14 per cent market share should warrant a scarcity premium. True, First Choice's shares have already enjoyed a fair run, outperforming the market by 27 per cent in the last year. But it is still on a sizeable price/earnings discount to Airtours and Thomson.

First Choice/Kuoni

Share prices relative to the European Leisure index (in $ terms)



Source: Datastream/ICV

Combining mass-to-mid market First Choice with the upmarket Kuoni will create few synergies, leaving the cosy deal vulnerable to counter-offers. That said, Germany's Preussag has its hands full right now and Thomson's existing 28 per cent market share would stir competition watchdogs. But an offer from the nimble Airtours could probably squeak by and would solve First Choice's lack of retail distribution.

Competition policy

Taking the politics out of the merger process is welcome. But until we have more detail on how the merger regime will change, it is impossible to judge how far ministers really will go in airbrushing themselves out of the picture. Doing this is not like handing over control of interest rates to the Bank of England. Picking an inflation target looks easier than defining a "competition-based test" to guide the authorities, as Stephen Byers, trade and industry secretary, advocated yesterday. Defining the scope of this test is itself an intensely political act. Such a test may require competition authorities to balance obvious benchmarks such as market shares, against far slippier notions of economic "efficiency" which may be used to justify mergers.

Then there is the small matter of defining issues of public interest where mergers will still attract ministerial involvement. Intriguingly, although Mr Byers mentioned defence as one such area, he did not repeat the example – given recently – of newspapers. This is encouraging. Media mergers, such as British Sky Broadcasting's bid for Manchester United, are just the sort of deals where ministerial involvement can attract accusations of conflicts of interest.

Bowthorpe held to 8% growth

By Caroline Daniel

Tough markets and higher research and development spending curbed 1998 profits growth at Bowthorpe, the maker of specialist electronic devices.

Announcing an 8 per cent increase in pre-tax profits to £92.1m ($148m) Nicholas Brookes, chief executive, said: "the company has progressed in a difficult year."

As it warned at the interim stage, Asian turbulence and the strong pound held back profits in the second half. These problems were offset by strong growth in the network management division, which includes telecommunications testing equipment. Profits here jumped 49 per cent to £30.2m on turnover of £127.3m (£99.7m).

The division should be buoyed this year by the acquisition of the industrial wireless testing business of Wireless Telecom of the US.

The company restated its aim, of spending about £100m-£150m on a larger acquisition. However, it said good value acquisitions had been hard to find. Last year Bowthorpe spent £26.8m on acquisitions.

Instead, Bowthorpe has concentrated on boosting organic growth through R&D spending which rose 18 per cent to £30.6m. Capital expenditure rose 65 per cent to £55.3m.

Bowthorpe remains focused on becoming a global business, concentrating on five areas. It is moving into higher margin, faster-growing businesses, such as aerospace data products, and away from traditional ones like cable management.

Turnover was £567.6m (£540.6m).

TECHNOLOGY WORTH WATCHING

Life on Mars courtesy of a 2lb device

A 2lb device that will produce pure oxygen on Mars from the red planet's predominantly carbon dioxide atmosphere is being built by researchers at the University of Arizona, Tucson, and Nasa's Johnson Space Center, *writes Tom Mead*.

The oxygen will be the first material for human consumption to be produced from extra-terrestrial resources.

Small enough to fit in an 8in x 6in x 5in box, the silver-domed Oxygen Generating Subsystem (OGS) will be carried on Mars Surveyor 2001.

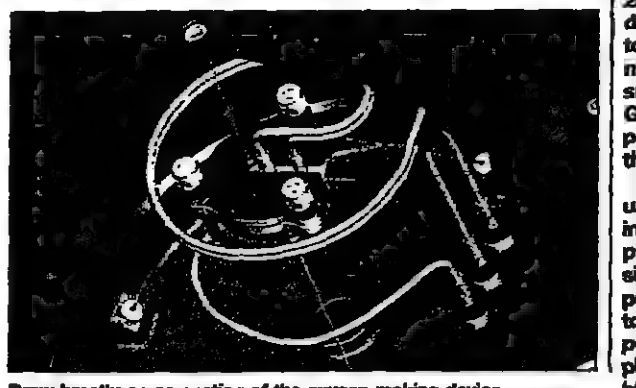
The unit will use solid oxide electrolysis to produce oxygen. Its technology is based on a solid-state electrochemical cell that houses a 750°C, 300 micrometer thick, ceramic membrane/filter for oxygen. The electrolyte used in the OGS filters out other gases and transfers only oxygen ions.

The unit uses 9.5W of electrical power to produce about one cubic centimetre of oxygen per minute. A more efficient 10lb, backpack-sized unit could supply enough oxygen to support an astronaut. The technology is highly scaleable and devices 100 times larger could produce a breathable atmosphere for Mars colonists.

Researchers hope there will be an OGS experiment on the Mars Surveyor 2003 mission that will produce both fuel and oxygen from the Martian atmosphere. When combined with carbon monoxide or methane, the oxygen could be used as rocket motor fuel or, when combined with the trace gases humans need, to support human life on Mars.

"The technology that we are advancing now for the 2003 mission should demonstrate the capability to provide all the necessities for life support," says Matthias Gottmann, OGS programme manager at the university.

K.R. Sridhar, the university's principal investigator on the programme, says its most significant aspect is perhaps that it is leading to technology to enable permanent settlements on planets and their satellites. *http://stl.ame.arizona.edu.*



Draw breath: cross-section of the oxygen-making device

IN BRIEF

'Sticking plaster' for roads staves off crack-up

A new composite material for repairing roads and pavements could make roads last longer, according to its inventors at the University of Illinois.

The material covers cracks on concrete or asphalt surfaces like an adhesive bandage, preventing the cracks from spreading and causing further damage. Traditionally, the damaged road or pavement is repaired with a thin asphalt-concrete overlay. The problem is that the overlay is fully bonded to the road, allowing cracks in the road to spread through the overlay, which deteriorates quickly.

The University of Illinois's material overcomes this problem by having three layers, which has the effect of absorbing some of the movement between the road or pavement and the surface of the overlay.

In a five-year test, cracking was reduced by at least 75 per cent.
University of Illinois: US, tel 2172441073; www.admin.uiuc.edu/

Putting viruses in the balance

Researchers have found a novel application for carbon nanotubes: weighing ultra-small particles, such as viruses. Scientists working at the Georgia Institute of Technology found they were able to use electrical voltage to deflect or induce resonance in individual nanotubes. When they placed an object on the end of a nanotube, they were able to gauge the change in the tube's resonant frequency, providing a measure of the object's mass.

According to an account in the journal Science, the researchers were able to measure the mass of a graphite particle weighing 22 femtogram (a thousandth of a millionth of a millionth of 1g).
Georgia Institute of Technology: US, tel 4048946986: www.gtri.gatech.edu/rco.html

Sense of a whiff of progress

Until now, the sensitivity of the human sense of smell has been something of a mystery. The nose has about 1,000 olfactory receptors. Yet it is capable of distinguishing between approximately 10,000 different smells.

Researchers at Harvard Medical School in the US and the Life Electronics Research Center in Amagasaki in Japan believe they have discovered how the sense of smell works, according to a report in the journal Cell.

Research on the nerve cells of mice showed that instead of an individual receptor being dedicated to a specific smell, different smells are recognised by combinations of receptors.

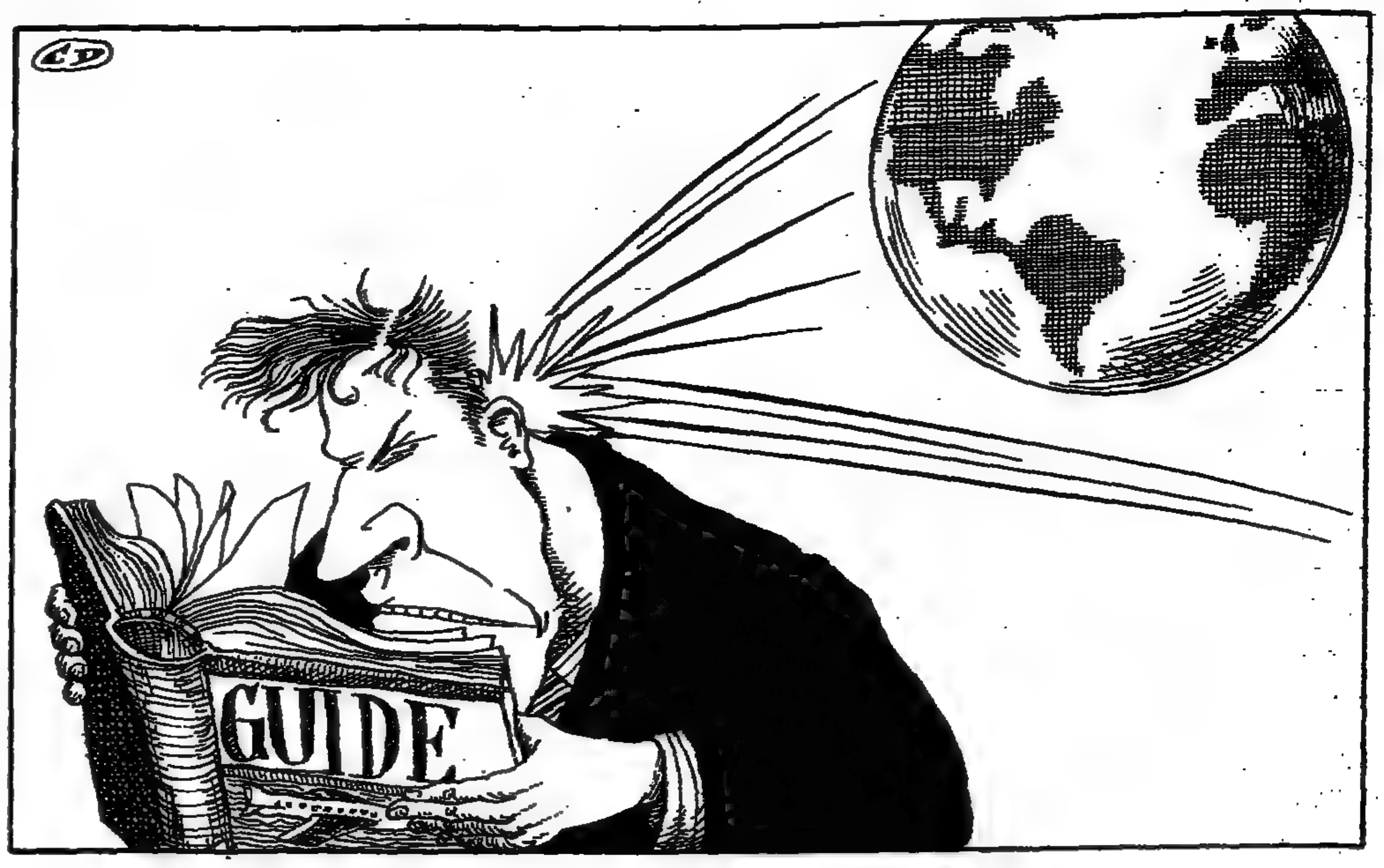
The researchers also showed that odour molecules that are nearly identical in structure are recognised by different, but overlapping, sets of receptors. This explains why even slight changes in the structure of a molecule can make a big difference to the way it smells.
Harvard Medical School: US, tel 6174320441; e-mail schaller@hms.harvard.edu

Generating a material benefit

A Scottish company has developed a fabric that generates heat when a voltage is applied to it.

The polymer-based material differs from existing electrically heated fabrics because it has no integral wiring system and power can be connected to it at any point. The material's resistance increases with temperature.
DC Heat: UK, tel (0)1506 494986; fax (0)1506 497154.

Vanessa Houlder



MANAGEMENT RISKS IN EMERGING MARKETS

Costs of trouble abroad

Violent crime, fraud and religious fanaticism are all problems that can prove expensive for multinationals, writes **Alison Maitland**

Businessman Trevor Bell left his credit cards and most of his cash behind when he took a taxi ride to dinner in Mexico City. His Argentine colleague was not so prudent, and it probably saved their lives.

They were held up by two armed accomplices of the taxi driver. The robbers' mood turned ugly when they discovered Mr Bell was carrying only $40.

"Fortunately for us, my colleague proved to be a much richer source of pickings. He had stepped out for the evening with $1,000 in cash, a stack of credit cards and a $3,000 watch," says Mr Bell, then a director of Seton Scholl, the UK healthcare group.

Given that carrying so much wealth runs counter to all advice to international travellers, the incident illustrates how difficult it is to find the right approach in emerging markets where kidnapping, corruption, organised crime or fraud may be rife.

Not that standard advice should be ignored. Mr Bell, now on the advisory board of Merchant International Group (MIG), a UK-based risk consultancy, admits his first mistake was to ignore the hotel's recommendation to use its limousines and avoid local taxis.

Once in the fix, however, he acted on MIG's advice and tried to establish a rapport with the gunmen by talking about his family and football.

Violent crime is only one of a web of non-conventional risks facing businesses in immature and fast-changing markets. Ignoring or mishandling such risks cost multinational companies more than £15bn last year, according to a report to be published by MIG this week.

That startling estimate is based on research among 7,500 international companies based in the UK, US and continental Europe.

It amounts to an average 8 per cent to 10 per cent erosion of companies' total expected returns, says MIG.

"Corporate arrogance among western companies, including many multinationals, is surprisingly prevalent," says Stuart Poole-Robb, chief executive.

"A huge amount of financial resource and management time is lost each year as a result of inadequate research and analysis prior to embarking into a non-domestic market."

> **'Corporate arrogance among companies is surprisingly prevalent'**

The report addresses hidden threats to business success, ranging from bureaucratic obstruction and protectionism to religious fanaticism – a wider field than conventional risk data available from banks, credit agencies and economists.

Mr Poole-Robb says many of these non-conventional risks, dubbed "grey-area dynamics" by MIG, are increasing (see chart). There has been a particularly steep rise in cronyism, organised crime and fraud in the past four years as locals become more sophisticated at exploiting western companies.

Forty-five per cent of companies said bureaucracy and corruption were important issues – and obstruction was not due to local officials alone. "What surprised many of the respondents was the level to which international business went to create difficulties and obstacles to their successful entry."

A British company, for example, suffered when US and French multinationals used local connections to slow its entry into the Thai market.

MIG has drawn up league tables of the riskiest countries in which to do business, depending on the nationality of the investor. Pakistan, for example, holds the greatest risks for UK multinationals, and Mexico for US companies.

The league tables are based on analysis of 40 types of risk that can cause assets to underperform, ranging from the passive and legal – such as language, customs and regulations – to the active and illegal, such as product piracy or pilfering.

Nearly 60 per cent of companies said they had lost out in overseas markets by paying too little attention to local customs and attitudes.

One European retailer was shocked by the poor performance of a new venture in Turkey, failing to consider the impact on relations with its Turkish managers and suppliers of appointing an extremely able Greek chief executive.

Dealing with corruption can also be a delicate matter. "It may not be illegal under local laws to pay a third party to lobby for a particular outcome or smooth the path of the company; indeed this may be critical to the success of an enterprise," says the report.

"Yet if revelation of such activity creates a suspicion of corruption by the company in the minds of the public, the damage inflicted on the company's reputation and its business may be significant."

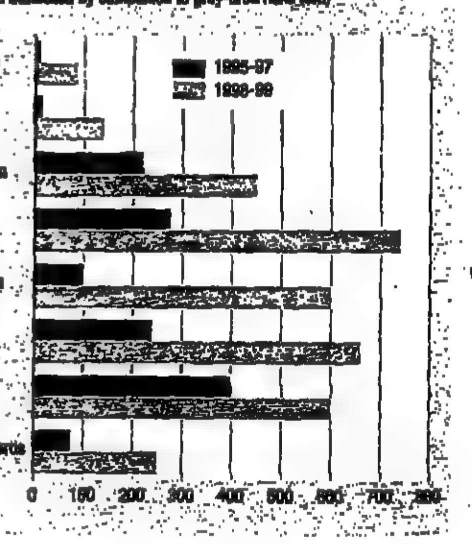
In the case of political extremism, companies would be unwise to dismiss it as irrelevant to their business operations.

"The company's own origins may determine whether or not it is targeted for extremist attack," it says. "How much protection the authorities are prepared to give it will also depend on how much power and popular legitimacy extremists wield."

The report makes bleak reading. But Mr Poole-Robb says companies can trade very profitably in risky markets.

"These dynamics, once measured, can show quite clearly in advance where markets will outperform expectation and where they will go into decline."

The Intelligence Gap 1999, available from MIG. £595. Tel: +44 171 259 5060 or e-mail: merchantint@hotmail.com,



GROWING BUSINESS PRIVATE EQUITY

UBS yet to reveal its claws

The private equity business UBS Capital must compete more aggressively in its home market if it is to be recognised as one of the industry's big cats, finds **William Hall**

Pierre de Weck, head of UBS Capital, a division of UBS, one of Europe's biggest banks, would seem to have one of the cushiest jobs in the private equity business. UBS has more surplus capital than it knows what to do with and access to a network of business contacts that most venture capitalists would die for.

While having too much money in the private equity business can sometimes be as bad as having too little, it has not hurt UBS Capital's record to date. Its business is fairly humming along. It earned SFr393m (£166.50m) after tax on capital of SFr250m in the first nine months of 1998 – far more money than Julius Baer, Switzerland's biggest private bank, earned in all of 1998.

Last year's profits increased by an above average number of divestments, and while UBS Capital refuses to disclose the historical rate of return on its private equity business, it is probably more than double the 25 per cent target rate of return that it has set itself for the next five years.

Mr de Weck, a 48-year-old ex-Citibanker whose father used to run UBS, has big ambitions for UBS Capital, which has grown substantially following last year's merger of UBS and Swiss Bank Corporation. UBS already had a sizeable North American private equity business and Phildrew Ventures in London. Swiss Bank Corporation's main vehicle was SBC Equity Partners, which specialised in the Swiss market.

Mr de Weck's target is to increase UBS Capital's profits by an average 11 per cent a year compared with 8 per cent for UBS Brinson, one of the world's biggest fund managers. By 2002 UBS Capital should be earning SFr600m after tax on a private equity portfolio that will have doubled to SFr4bn. Under UBS's recently revised corporate targets UBS Capital should be earning 50 per cent more than Brinson by 2002.

Hence, it is surprising to find that in its home market of Switzerland, UBS Capital is a long way from being the market leader. Foreign firms, such as Doughty Hanson and Texas Pacific, have been running rings around UBS Capital when it comes to cornering the big deals.

Mr de Weck is sensitive to accusations that UBS Capital is not able to compete on its home turf. It tends to do slightly smaller deals than Doughty Hanson, such as the acquisition of Mr Minit, the world's largest shoe repair chain.

UBS Capital's strategy is no different from that of most other private equity firms. It is interested in companies that have the potential to be market leaders and is prepared to finance their ambitions.

"Unlike some of our competitors we are not going into the big 'flashy' deals. When we appear at the table we do not need to establish our credibility," says Mr de Weck. UBS Capital often caters to private families and "they do not necessarily appreciate lots of publicity about their affairs".

UBS Capital's skills lie in "buying established cash flows, optimising them, leveraging them and adding growth with a view to exiting in three to five years," he adds. "We are not an early stage investor. We normally wait until the product is ready and a company needs expansion capital."

The sole exception is the group's specialised software team in the US.

Some 95 per cent of its SFr1.7bn portfolio is invested in later stage investments, and the biggest part is management buyouts (61 per cent), followed by replacement capital (21 per cent). Start-up and other early stage investments account for only 1 per cent. More than half its 130 investments are in manufacturing.

One of UBS Capital's apparent advantages over its competitors is its access to finance which should give it an edge in refinancing deals. Meanwhile, UBS's private bank is servicing many of Europe's wealthiest individuals who have made their fortunes from business. When family entrepreneurs get close to retirement UBS Capital has an advantage because it could help facilitate a change in management and control.

> **'Unlike some competitors we are not going into the big "flashy" deals. We do not need to establish credibility'**
>
> Pierre de Weck

Competitors tend to play down these advantages. Raising finance is the least of the problems for successful private equity operations at present, and UBS's network of contacts can result in conflicts of interest. Finally, the record of big international banks spawning successful private equity ventures is not particularly good. Chase Capital Partners is one of the few exceptions.

But Mr de Weck remains upbeat. His ambition is to establish UBS Capital as the industry role model for an integrated global private equity business. With offices in London, Paris, the Hague, Munich, Milan, Zurich, New York, Sao Paulo, Buenos Aires, Singapore and Hong Kong, it already has a bigger international network than nearly all its competitors.

However, if UBS Capital is to reach its ambitious profit targets it may soon have to start competing more aggressively with the likes of Doughty Hanson and Texas Pacific.

Only then will it be able to prove that it is one of the industry leaders.

EURO PRICES

EQUITIES

Europe edges lower on Wall St indecision

EUROPEAN OVERVIEW

By Florian Gimbel

A strengthening euro and Wall Street's indecisiveness weighed on European shares yesterday, leaving the Eurotop 300 index marginally lower. Banking stocks, however, put in a sharp rally following BNP's takeover bid for rival groups Société Générale and Paribas.

Shares of the three French banks were suspended but enthusiasm over the deal buoyed financial stocks throughout Europe. If successful, the merger could produce the largest European bank in asset terms, heightening hopes for further consolidation in the European banking sector.

"It will happen in two stages, with national consolidation preceding pan-European consolidation," said Ian Scott at Lehman Brothers.

Germany's Dresdner, which has a small cross-holding with BNP, ended 5.5 per cent higher at €33.10 on speculation that the two banks could soon forge closer ties.

Merger talk also swept through the Italian banking sector, sending Banca Commerciale Italiana shares 8.1 per cent higher on speculations of a possible merger with Unicredito.

Other sectors, however, felt the pinch of a rising euro, with industrial stocks being particularly affected. Fears of higher US interest rates, which had underpinned a stronger dollar, subsided yesterday following Tuesday's comments by Alan Greenspan, chairman of the Federal Reserve. He said there were no signs of inflation in spite of continuing US growth.

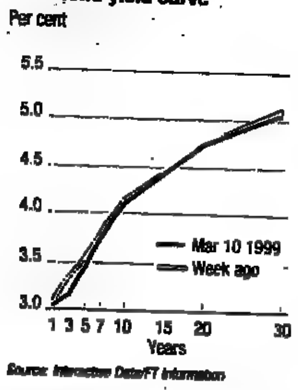
February turned out to be rather weak for European equities as investors worried about the strength of the US economy and the weakness of output in Europe.

The FTSE Eurotop 300 posted a 0.6 per cent gain, while the Eurobloc 100 fell 1.7 per cent. Industrials were weak but consumer cyclicals, such as leisure and media, put in a strong performance on healthy consumer confidence.

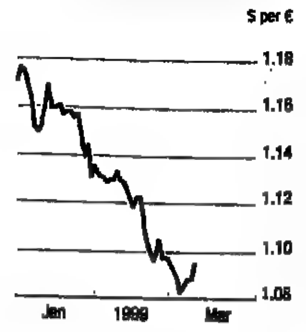
Yet the impact of weak industrials on the European index could be increasingly limited because of their relatively small weighting.

The FTSE Eurotop 300 index fell 1.66 to 1,237.69 while the FTSE Eurotop 100 declined 5.68 to 2,853.76. The FTSE Ebloc index of leading stocks in the euro-zone settled 0.51 lower at 1,009.26.

Euro bond yield curve



Euro against the dollar



Source: Interactive Data/FT Information

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Mar 10 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1237.69	−0.13	−1.66	2.18	[illegible]	1277.72
FTSE Eurotop 100	2853.76	−0.20	−5.68	2.17	8.67	1026.15
FTSE Ebloc 100	1009.26	−0.05	−0.51	2.01	0.74	1025.23
FTSE EuroMid	1206.35	−0.05	−0.57	2.79	2.36	1252.49
FTSE EuroMid Ebloc	1177.88	−0.65	−7.86	2.36	1.65	1204.45
FTSE EuroMid Ex UK	1227.69	−0.40	−4.93	2.15	1.14	1251.58
FTSE Eurotop 300 Regions						
Eurobloc	1260.61	−0.07	−0.91	1.97	1.16	1268.90
UK	1213.90	+0.14	+1.75	2.53	7.13	1282.31
Europe Ex-Eurobloc	1225.11	−0.20	−2.41	2.40	5.10	1274.35
Europe Ex-UK	1252.28	−0.28	−3.57	[illegible]	0.91	1276.65
FTSE Eurotop Industry Sectors						
RESOURCES	919.20	+0.12	+1.12	3.17	3.69	965.33
Mining	895.64	−1.28	−11.57	4.06	21.37	937.05
Oil & Gas	985.57	+0.16	+1.61	3.13	2.82	910.14
BASIC INDUSTRIES	1074.78	+0.18	+1.88	2.78	2.55	1100.30
Chemicals	812.97	+0.15	+1.22	2.76	2.47	829.85
Construction & Bld Matls	1031.07	+0.10	+1.07	2.25	1.13	1041.29
Forestry & Paper	906.30	+0.61	+5.53	4.27	0.00	947.74
GENERAL INDUSTRIALS	1107.58	−0.71	−7.90	2.29	3.28	1134.60
Aerospace & Defence	802.37	+0.35	+2.78	2.14	2.89	816.32
Diversified Industrials	940.79	−0.83	−7.88	2.17	0.00	962.31
Electronic & Elect Equip	1011.66	−0.13	−1.31	1.90	5.15	1022.43
Engineering & Machinery	1010.80	−1.42	−14.60	2.97	4.16	1029.02
CYCLICAL CONS GOODS	1235.94	−1.56	−19.64	2.31	0.00	1269.85
Automobiles	908.19	−1.78	−16.49	2.32	0.00	918.61
Household Goods & Texts	1275.74	−0.41	−5.28	2.23	0.00	1296.03
NON-CYC CONS GOODS	1232.02	−0.88	−10.88	1.50	2.55	1268.55
Beverages	969.51	+0.47	+4.56	2.66	0.00	990.44
Food Producers & Processors	925.01	−0.75	−6.95	1.72	1.41	937.30
Health	973.21	+1.84	+17.61	1.22	0.00	987.77
Packaging	763.68	−0.92	−7.10	1.18	0.00	764.83
Personal Care & Hse Prods	1070.27	−1.98	−21.58	0.91	0.00	1079.40
Pharmaceuticals	1130.46	−0.92	−10.44	1.17	3.25	1139.90
Tobacco	1362.65	−2.44	−34.06	3.65	1.42	1389.97
CYCLICAL SERVICES	1344.27	−0.25	−3.41	2.26	1.74	1386.49
Distributors	695.60	+0.18	+1.22	4.24	0.00	703.41
General Retailers	1097.05	−0.06	−0.69	2.92	1.27	1121.03
Leisure Entertmt & Hotels	1017.14	−1.48	+14.84	[illegible]	6.02	[illegible]
Media & Photography	1263.72	+0.28	+3.54	[illegible]	[illegible]	1278.47
Rests, Pubs & Breweries	897.30	+1.72	−15.21	[illegible]	3.71	927.64
Support Services	1072.51	+0.01	+0.15	1.10	1.10	1091.05
Transport	955.13	−0.48	−4.59	2.66	1.81	974.66
NON-CYCLICAL SERVS	1351.06	−0.78	−10.57	1.38	0.48	1422.00
Food & Drug Retailers	1008.57	−0.20	−2.02	2.11	0.51	1024.47
Telecommunications Servs	1383.15	−0.88	−12.21	1.28	0.43	1404.22
UTILITIES	1425.37	−0.88	−12.49	3.16	5.17	1495.34
Electricity	1062.97	−1.13	−12.11	3.30	4.44	1101.34
Gas Distribution	1191.74	−0.21	−5.70	1.65	1.00	1302.20
Water	922.35	−0.67	−6.17	5.48	5.94	972.54
FINANCIALS	1218.94	−0.56	−11.29	2.55	5.26	1357.51
Banks	943.12	−1.55	−14.44	3.22	5.82	962.77
Insurance	964.32	−0.07	−0.69	1.42	0.57	975.35
Life Assurance	1141.57	−1.07	−12.37	1.74	0.99	1157.35
Investment Companies	974.32	−0.72	−7.02	1.55	0.00	997.69
Real Estate	778.54	−1.06	−8.61	3.21	1.67	788.72
Speciality & Other Fin	933.15	−1.23	−11.68	2.19	0.00	954.42
INFORMATION TECH	945.77	−0.65	−6.23	0.64	0.74	957.31
Information Tech Hardware	1037.28	−0.01	−0.13	0.64	0.00	1045.15
Software & Computer Serv	743.38	−2.78	−21.24	0.51	3.15	745.32

[illegible]

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

Mar 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	37.8517	−0.0984	[illegible]	38.0300	37.8100	38.0042	−4.8	38.3135	−4.8	[illegible]	−4.6
Denmark	(DKr)	7.4322	−0.0004	[illegible]	7.4410	7.4228	[illegible]	−0.2	7.4380	[illegible]	7.4579	−0.3
Greece	(Dr)	321.327	−0.1320	120 - 533	321.700	321.021	323.0868	−6.5	326.3853	−6.3	339.3934	−5.6
Hungary	(Forint)	253.028	+2.5170	872 - 183	253.200	250.020	255.7347	−12.8	260.9112	−12.5	282.6180	−11.7
Norway	(NKr)	8.5559	+0.0037	510 - 607	8.5706	8.5400	8.5861	−4.2	8.6411	−4.0	8.7965	−2.8
Poland	(Zloty)	[illegible]	+0.0330	012 - 138	4.3222	4.2725	-	-	-	-	-	-
Romania	(Leu)	14633.08	+216.6000	560 - 056	-	-	-	-	-	-	-	-
Russia	(Rouble)	25.5745	+0.1576	[illegible]	25.6160	25.4289	-	-	-	-	-	-
Slovakia	(Koruna)	44.4636	−0.0233	[illegible]	44.5403	42.3345	-	-	-	-	-	-
Sweden	(SKr)	8.8922	−0.0366	[illegible]	8.9400	8.8825	8.8924	0.0	8.8949	−0.1	8.9107	−0.2
Switzerland	(SFr)	1.5987	+0.0048	[illegible]	1.6021	1.5982	1.5971	2.0	1.5922	1.9	1.5748	1.6
UK	(£)	0.6732	−0.0011	728 - 735	0.6767	0.6722	0.6745	−2.3	0.6771	−2.3	0.6881	−2.2
Americas												
Argentina	(Peso)	1.0954	+0.0067	[illegible]	1.0972	1.0875	-	-	-	-	-	-
Brazil	(R$)	2.0377	−0.0037	263 - 490	2.0576	[illegible]	-	-	-	-	-	-
Canada	(C$)	1.6668	+0.0157	[illegible]	1.6685	1.6488	1.6693	−1.9	1.6749	−2.0	1.7025	−2.2
Mexico	(New Peso)	10.7305	+0.0814	230 - 379	10.7578	10.6518	10.9496	−24.5	11.3490	−23.1	13.4284	−25.1
USA	($)	1.0955	+0.0067	[illegible]	1.0974	[illegible]	1.0972	−1.9	1.1008	−1.9	1.1195	−2.2
Pacific/Middle East/Africa												
Australia	(A$)	[illegible]	+0.0133	222 - 247	1.7284	[illegible]	1.7258	−1.6	1.7309	−1.7	1.7575	−2.0
Hong Kong	(HK$)	8.4886	+0.0525	[illegible]	8.4980	8.4357	8.5038	−2.1	8.5443	−2.6	8.8494	−4.3
India	(Rs)	46.4931	+0.2525	791 - 070	46.6066	46.1587	46.8346	[illegible]	47.5494	−9.1	51.0128	−9.7
Indonesia	(Rupiah)	[illegible]	[illegible]	247 - 087	9975.10	9863.60	10203.51	−31.6	10815.13	−35.1	13350.11	[illegible]
Israel	(Shk)	4.3963	+0.0136	[illegible]	[illegible]	4.3648	-	-	-	-	-	-
Japan	(Y)	131.312	−0.8300	[illegible]	132.400	131.200	130.9822	3.0	130.3395	3.0	127.5884	2.8
Malaysia	(M$)	4.1629	+0.0258	475 - 497	4.1750	4.1334	-	-	-	-	-	-
New Zealand	(NZ$)	2.0420	+0.0064	397 - 442	2.0494	2.0306	2.0440	−1.2	2.0488	−1.3	2.0782	−1.8
Philippines	(Peso)	42.7246	+0.2088	524 - 967	42.9632	42.2571	43.0895	−10.2	43.7839	−9.9	46.9145	−9.8
Saudi Arabia	(SR)	4.1087	+0.0258	[illegible]	[illegible]	4.0792	4.1220	[illegible]	4.1488	[illegible]	4.2743	−4.0
Singapore	(S$)	1.8947	+0.0108	938 - 958	1.8971	1.8837	1.8927	1.3	1.8900	1.0	1.8914	0.2
South Africa	(R)	6.7483	+0.0359	[illegible]	6.7686	[illegible]	6.8182	−12.4	6.9497	−11.9	7.4615	−10.6
South Korea	(Won)	[illegible]	+5.7100	831 - 308	1354.52	1347.52	-	-	-	-	-	-
Taiwan	(T$)	36.2611	+0.1472	[illegible]	36.3460	36.0490	36.4418	−6.0	36.7384	−5.3	37.8391	−4.4
Thailand	(Bt)	40.9444	+0.3503	095 - 792	41.0647	40.4564	41.0773	−3.9	41.4497	−4.9	43.1848	−5.5
UAE	(Dirham)	4.0238	+0.0249	[illegible]	4.0250	3.9750	4.0303	−1.9	4.0451	−2.1	4.1229	−2.5

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT.

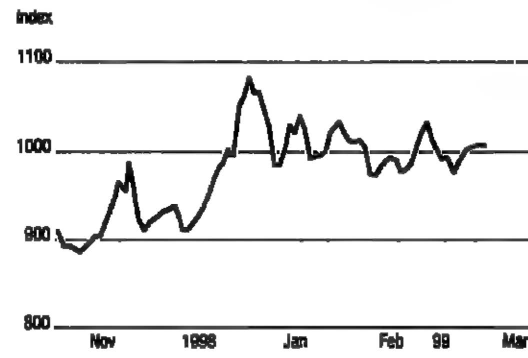
BONDS

INTEREST RATE SWAPS

Mar 10	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.09	3.12	5.40	5.43	[illegible]	[illegible]	5.29	5.32	0.22	0.25
2 year	3.16	3.20	5.37	5.40	[illegible]	[illegible]	5.50	5.53	0.36	0.38
3 year	3.32	3.36	5.41	5.45	1.98	2.06	5.61	5.64	0.57	0.60
4 year	3.60	3.64	5.41	5.45	2.17	2.25	5.69	5.72	0.83	0.86
5 year	3.69	3.73	5.37	5.41	2.34	2.42	5.76	5.79	1.10	1.13
6 year	3.87	3.91	5.36	5.40	2.51	2.59	5.82	5.85	1.36	1.39
7 year	4.04	4.08	5.35	5.39	2.68	2.76	5.86	5.89	1.60	1.63
8 year	4.19	4.23	5.36	5.40	2.84	2.92	5.91	5.94	1.78	1.81
9 year	4.32	4.36	5.37	5.41	2.99	3.07	5.93	5.96	1.93	1.96
10 year	4.41	4.45	5.37	5.41	3.13	3.21	5.96	5.99	2.06	2.09
12 year	4.56	4.60	5.38	5.43	3.36	3.46	6.02	6.05	2.27	2.31
15 year	4.76	4.80	5.39	5.44	3.61	3.71	6.11	6.14	2.52	2.57
20 year	4.98	5.02	5.40	5.45	3.86	3.96	6.21	6.24	2.70	2.75
25 year	5.11	5.15	5.39	5.45	3.97	4.07	6.21	6.24	2.79	2.84
30 year	5.17	5.21	5.38	5.45	4.06	4.16	6.22	6.25	2.82	2.88

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months Libor. £ and Yen quoted on a semi-annual actual/365 basis against 6 months Libor. Euro/Swiss Franc quoted on annual bond 30/360 basis against 6 month Euribor/Libor with the exception of the 1 year rate which is quoted against 3 month Euribor/Libor. Source: Intercapital Brokers Ltd.

FTSE Ebloc 100



Source: FTSE International

EURO-ZONE BONDS

Mar 10	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
SOVEREIGNS								
UK	01/01	4.250	AAA	101.799	3.24	+0.00	+0.13	+0.18
Denmark	01/02	4.750	AA+	103.794	3.31	−0.05	+0.09	−0.15
Sweden	02/01	5.000	AA+	103.225	3.22	−0.04	+0.08	+0.16
Greece	11/08	6.750	BBB	113.734	4.58	+0.00	+0.22	+0.84
SUPRANATIONALS								
ADB	10/07	5.500	AAA	106.970	4.50	[illegible]	[illegible]	+0.63
EIB	04/08	5.000	AAA	105.547	4.25	[illegible]	+0.27	+0.26
Eurofina	12/08	5.625	AAA	107.868	4.67	−0.04	+0.29	+0.57
World Bank	04/05	7.125	AAA	117.086	3.91	−0.01	+0.14	+0.31
UTILITIES								
EDF	10/03	3.750	n/a	101.060	3.49	−0.03	+0.07	−0.19
TEPCO	02/03	4.750	AA	103.500	3.78	−0.03	+0.02	+0.49
Quebec Hydro	03/08	5.375	A+	104.184	4.79	−0.02	+0.26	[illegible]
Norsk Hydro	10/09	7.250	A	101.918	3.62	+0.02	+0.08	+0.58
FINANCIALS								
Bad Wurt	02/10	6.375	AAA	108.408	[illegible]	−0.06	+0.30	+0.45
OKB	09/07	5.750	AAA	110.115	4.30	[illegible]	+0.23	+0.43
Credit Local	04/08	5.250	AA+	105.009	4.56	−0.03	+0.25	+0.57
Abbey Natl	01/09	5.000	AA−	100.478	4.93	−0.01	+0.32	+0.83
INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.101	3.42	−0.07	−0.05	+0.36
McDonalds	03/08	5.125	AA	104.290	4.53	−0.03	+0.26	+0.54
Philip Morris	06/08	5.625	A	103.735	5.11	−0.02	−0.32	+1.12
BAT Int Fin	07/06	5.375	A−	102.166	5.01	+0.00	+0.08	+1.27
PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	105.543	3.32	−0.01	−0.06	+0.26
Eurohypo AG	01/04	5.000	n/a	105.719	3.68	−0.01	+0.16	+0.22
Bayer Vereins	01/06	6.000	n/a	111.478	4.05	+0.00	+0.30	+0.31
Depfa	07/08	4.750	n/a	102.726	4.38	−0.01	+0.34	+0.39
HIGH YIELD								
Gabent	04/07	10.125	B+	115.000	6.22	+0.00	[illegible]	−2.35
Colt Telecom	11/07	8.875	n/a	126.500	7.83	−0.04	+0.05	−3.98
Impress Metal	05/07	9.875	B	111.000	7.35	−0.03	−1.65	−3.48
Remy Cointreau	07/05	10.000	B−	98.000	10.42	−0.11	−0.72	+6.83

Standard & Poor's ratings. Source: Interactive Data/FT Information

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.930	96.930	+0.010	96.935	96.925	13341	139571
Jun	97.075	97.080	+0.005	97.075	97.055	29583	158495
Sep	97.080	97.085	+0.005	97.095	97.075	28037	124825
Dec	96.845	96.850	+0.025	96.865	96.840	8232	96148

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100 - rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.925	96.930	+0.010	96.930	96.925	710	117380
Jun	97.065	97.080	+0.005	97.085	97.055	1233	105853
Sep	97.075	97.085	+0.020	97.085	97.075	306	93214
Dec	96.845	96.850	+0.025	96.845	96.845	154	84029

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100 - rate

[illegible]

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	2842.0	2855.0	+5.0	2855.0	2835.0	1740	7351
Jun	2845.0	2855.0	+5.0	2855.0	2840.0	439	229

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

[illegible]

Est vol total 1. Prev day's open interest total 6,752. Premiums shown are based on settlement prices.

OTHER INDICES

	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3487.91	3509.98	3496.29	3670.82	[illegible]	3670.82	[illegible]
DJ Euro Stx 50	3485.05	3493.54	3495.43	[illegible]	[illegible]	[illegible]	[illegible]
MSCI Europe	(u)	1214.79	1212.47	1315.55	908.59	1315.55	[illegible]

Source: Financial Times Information. *Subject to revision [illegible]

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE EUROTOP 300

Columns: Name | Price (Euro) | Chge + or − | Mkt cap Euro(bn) | Vol (m) | Yld

AEROSPACE & DEFENCE — [illegible]

AUTOMOBILES — [illegible]

BANKS — [illegible]

BEVERAGES — [illegible]

CHEMICALS — [illegible]

CONSTRUCTION & BUILDING — [illegible]

DISTRIBUTORS — [illegible]

DIVERSIFIED INDUSTRIALS — [illegible]

ELECTRICITY — [illegible]

ELECTRONIC & ELECTRICAL EQUIPT — [illegible]

ENGINEERING & MACHINERY — [illegible]

FOOD & DRUG RETAILERS — [illegible]

FOOD PRODUCERS & PROCESSORS — [illegible]

FORESTRY & PAPER — [illegible]

GAS DISTRIBUTION — [illegible]

GENERAL RETAILERS — [illegible]

HEALTH — [illegible]

HOUSEHOLD & TEXTILES — [illegible]

I.T. HARDWARE — [illegible]

INSURANCE — [illegible]

INVESTMENT COMPANIES — [illegible]

LEISURE ENTERTAINMENT & HOTELS — [illegible]

LIFE ASSURANCE — [illegible]

MEDIA & PHOTOGRAPHY — [illegible]

MINING — [illegible]

OIL & GAS — [illegible]

PACKAGING — [illegible]

PERSONAL & HOUSEHOLD PRODUCTS — [illegible]

PHARMACEUTICALS — [illegible]

REAL ESTATE — [illegible]

RESTAURANTS PUBS & BREWERIES — [illegible]

SOFTWARE & COMPUTER SERVICES — [illegible]

SPECIALITY & OTHER FINANCE — [illegible]

SUPPORT SERVICES — [illegible]

TELECOMMUNICATION SERVICES — [illegible]

TOBACCO — [illegible]

TRANSPORT — [illegible]

WATER — [illegible]

Notes: Price data and market capitalisation supplied by FTSE International. Market capitalisation figures are based on shares listed on index calculations. Shares are not counted where foreign ownership restrictions apply. Market caps only include secondary lines not eligible as constituents. Stocks in bold type are domiciled in Euro-zone. Trading volumes and yields derived from local domestic markets and supplied by Financial Times Information. Company classifications are based on those used for the FTSE Eurotop share indices.

European prices move higher

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

European bonds closed higher, encouraged by a recovery in the euro against the dollar and strong demand for corporate euro-denominated paper.

US Treasuries were lower at midday, ahead of today's release of economic reports.

The benchmark German bund future edged ahead and the French 10-year bond future closed up 0.3 at 110.07.

UK gilts also rose as investors reassessed the impact of the Budget. "There has been a slight change of heart by the UK gilt market to the Budget after the initial thumbs down," said David Brown at Bear Stearns. The gilt benchmark 10-year future rose by 0.56 to 116.19.

In the US, the 30-year bond, the benchmark for long-term interest rates, was down ⅔ to 95⅝ at midday, sending the yield up to 5.573 per cent. The 10-year note was down ¼ to 96⅝, yielding 5.206 per cent.

New figures on retail sales and initial unemployment claims are expected today, and the producer prices report on Friday. The US market took some comfort on Tuesday from comments from Alan Greenspan, chairman of the Federal Reserves, who said there had been no signs of inflationary pressure, suggesting the Fed might not be ready to raise interest rates.

The Japanese bond market was also higher, with the yield on the 10-year benchmark JGB falling to 1.68 per cent from 1.78 per cent.

Investor sentiment has been improved by the Bank of Japan's recent efforts to push overnight market rates to zero.

The Japanese equity market rallied on improved economic figures and returning investor confidence.

Emerging markets bond prices also staged a small rally, encouraged by positive news from Brazil. The country's lower house of parliament approved a key fiscal bill yesterday, which helped push Brazil's benchmark C bond one percentage point higher to 60¼.

Brazil is hoping to return to international capital markets in April once the International Monetary Fund has approved a $9.2bn tranche of loans to the country.

Lucent launches $1.36bn global

NEW ISSUES

By Khozem Merchant

Lucent Technologies launched its first global bond, a 30-year $1.36bn offering, on a day of several big issues led by Freddie Mac with a 10-year $3bn bond.

Lucent, which was spun off from AT&T, opted for the global format to reflect its international business. More than a quarter of its revenues are from outside its domestic US market and this is forecast to rise to half within five years.

As this was its debut international bond offering, Lucent was keen to offer the paper in its home currency. It considered a euro-denominated issue but issuing in euros and swapping back into dollars remains costly for US borrowers.

"A 30-year cross-currency spread would have been very expensive," said Bear Stearns, sole book-runner. Some 20 per cent of the issue was bought by investors outside the US, a healthy share given that Lucent is such a strong name at home. It had feared non-US investors would be crowded out. The bond was priced to yield 89 basis points over the 30-year Treasury and tightened after launch.

Portugal unveiled the latest element of what bankers described as a "moderate approach to raising debt", with a €1.5bn bond, its first euro-denominated issue in the five-year sector.

In January, Portugal issued a 10½-year €1.5bn bond and said it would increase the issue at monthly auctions of €250m.

Last September, it issued a 15-year benchmark bond, which after several add-ons now stands at €2.6bn.

Bankers said the gradual issuance of debt at maturities across the curve would ensure the issuer retained "rarity value".

A successful auction of 10-year paper encouraged the authorities to bring forward the launch of the five-year bond, which was priced to yield 7 basis points over the relevant German bund.

The issue was sold through a syndication of banks to ensure better international distribution and liquidity. The add-ons will also be sold through auctions, similar to the approach adopted by Austria and replicated by the European Investment Bank in its recently announced "Earns" borrowing programme.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Freddie Mac	3bn	5.75#(i)	99.518R	Mar 2009	0.15R	+62½(Nov08)	CSFB/Merrill/Salomon
Lucent Technologies Inc	1.36bn	6.45#	99.461R	Mar 2029	0.875R	+89(5¼Nov28)	Bear Stearns
CERT 1999-A(a)*	759.5	-	-	-	-	-	CSFB
SNS Bank‡	350	(b)	99.733R	Mar 2004	0.175R	-	Barclays Capital
European Inv'ment Bank(c)	100	(c1)	100.00R	Mar 2009	0.25R	-	Morgan Stanley DW
EUROS							
Rheinische Hypo(p)	2bn	4.00	99.30R	Sep 2006	0.12R	+21(6¼Apr06)	CDC/Commerz/Dresdner
Hypo in Essen(p)	2bn	3.50	99.205R	Mar 2004	0.15R	+31(3½Nov03)	ABN/Commerz/Goldman
Republic of Portugal	1.5bn	3.625(s)	100.02R	Aug 2004	0.15R	+7(3¾%Jul04)	CGD/Commerzbank
Rabobank Nederland(f)	1bn	3.625(s)	99.67R	Jul 2004	0.25R	+20(3½Jul04)	Salomon SB/Warburg DR
Halifax plc	650	4.75	99.727R	Mar 2009	0.40R	+72(3¾Jan09)	Lehman Brothers
STERLING							
Tesco plc(d)	100	6.125(s)	98.738	Dec 2009	0.375	+85(5¾%-09)	Morgan Stanley DW
SWISS FRANCS							
SunAmerica Inst Funding	250	2.00	100.25	Apr 2004	2.00	-	Warburg Dillon Read

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Case Equipment Receivables Trust. 5-tranche asset backed. b) 3-mth Libor +15bp. c) Callable annually from 26/3/00 at par. c1) 8 in yr 1, then 6%. d) Fungible with £250m, plus 59 days accrued. e) Spread relates to German govt bonds unless stated. f) Spread re French govt bonds. l) Long 1st coupon. p) Oeffentliche Pfandbriefe. s) Short 1st coupon.

Fannie Mae offers swap into benchmark

By Vincent Boland

Fannie Mae, the US mortgage agency, has offered holders of its non-benchmark debt the option of exchanging their holdings for that of its five-year benchmark bond.

The exchange applies to holders of just over $15.06bn of Fannie Mae's non-callable, US dollar medium-term notes, global bonds and debentures. Investors taking part in the offer will receive holdings of 5.125 per cent benchmark notes maturing in February 2004.

Fannie Mae already has $4bn outstanding in the benchmark notes and, in addition to the exchange, it said it would reopen the issue to add at least another $2bn. The new tranche, to include the exchanged securities, is expected to be priced on March 19.

Timothy Howard, chief financial officer, said the exchange would allow investors in non-benchmark issues "to consolidate their holdings into an extremely liquid and tradable benchmark notes security".

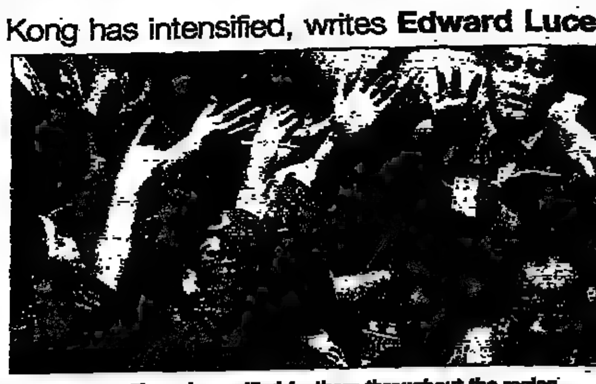
The exchange offer applies to 71 specific issues of Fannie Mae's outstanding debt with maturities between June 2002 and March 2006.

Fannie Mae has appointed Goldman Sachs as dealer manager for the exchange. The investment bank will be joined by Bear Stearns and Merrill Lynch as lead managers of the new tranche of the 5.125 per cent notes.

The agency, the largest source of home mortgage financing in the US, has issued $53.25bn in benchmark notes since they were introduced last year to create a set of issues with maturities ranging from three to 10 years.

Simex points to future for Singapore in Asia

The rivalry with Hong Kong has intensified, writes **Edward Luce**



Open outcry: Simex has ruffled feathers throughout the region

Singaporean officials permitted themselves a wry smile last week when Hong Kong's authorities announced plans to merge its stock and derivatives exchanges later this year.

Three months after Lee Hsien Loong, Singapore's deputy prime minister, unveiled plans to merge Simex, the derivatives exchange, with the Stock Exchange of Singapore, Hong Kong's move underlined the intense rivalry between the two city states.

Singapore officials play down talk of competing directly with Hong Kong as a financial centre but they are clearly trying to capitalise on perceptions that Hong Kong has lost its way – especially after the government's intervention in the stock market last August to stave off speculative attacks on the Hong Kong dollar.

Singapore, in contrast, has tried to turn the Asian financial crisis to its advantage by promoting itself as a stable and increasingly international financial centre.

Last November, Simex provoked outrage at the Hong Kong Futures Exchange when it launched the HKMSCI, an index based on the Hong Kong stock market, with Morgan Stanley Capital International.

Although the contract has been a flop – with barely any volume recorded last month in contrast to Hong Kong's more successful index future – the move was taken as a sign of Singapore's increasingly aggressive marketing strategy.

Simex, which has agreed to join Globex, the derivatives alliance between France's Matif and the Chicago Mercantile Exchange, has also been ruffling feathers elsewhere in the region.

It has launched futures based on stock market indices in Thailand, Taiwan and the Singapore domestic stock market. It postponed plans to launch a future on the Kuala Lumpur composite index in October after the Malaysia imposed strict capital controls on foreign portfolio investment.

"We intend to become the leading international futures exchange for the region," said Elizabeth Sam, deputy chairman. "This will also eventually include launching interest rate contracts on other markets in Asia."

Bankers say Singapore's strategy is led by Simex rather than the SES because the futures exchange has greater competitive advantages over its Hong Kong counterpart. The SES is dominated by listings of state-owned and government-linked corporations, and is smaller and less liquid than the HKSE.

In addition, Hong Kong can boast a large number of foreign listings, notably the "red chips" of leading Chinese corporations. The SES is local in comparison.

Simex, which along with the SES will be demutualised before their merger this year, is viewed as more international than its Hong Kong counterpart. Chris Podbury, head of futures at Jardine Fleming in Singapore, says the attraction of Simex will be enhanced by its membership of Globex, which is designed to provide 24-hour trading by offering access from the world's three main time-zones.

In addition, Simex will adopt NSC-VF, the electronic trading system developed by Matif. Simex will trade dollar and euro contracts listed on the CME and Matif and save on costs in the process.

"This is clearly a big plus for Singapore," Mr Podbury said. "It is designed to provide more liquidity for international contracts."

As with Matif and London's Liffe, that have embraced screen-based trading, an electronic platform will lead to the end of "open-outcry" trading on Simex.

Simex locals, floor traders who speculate with their own cash, will become a thing of the past. Judging by its tactics, Simex harbours similar intentions for its Hong Kong rival.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Mar 10	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	105.2938	5.10	-0.02	+0.03	+0.26	-0.01
	08/08	8.750	122.6492	5.62	-0.07	+0.04	+0.39	-0.31
Austria	03/01	5.250	103.9600	3.17	-0.02	-0.17	+0.15	-0.85
	01/08	5.000	105.6500	4.22	-0.02	-0.05	+0.28	-0.78
Belgium	03/01	5.000	103.6500	3.17	-0.08	-0.13	+0.15	-0.82
	03/09	3.750	95.3900	4.30	-0.03	-0.05	+0.32	-0.88
Canada	12/00	5.000	99.7400	5.15	-0.02	-0.17	+0.27	+0.23
	06/08	6.000	105.3700	5.26	-	-0.12	+0.21	-0.22
Denmark	11/00	9.000	108.7700	3.48	-0.04	-0.20	-0.01	-0.72
	11/09	6.000	112.8100	4.48	-0.05	-0.10	+0.35	-0.74
Finland	06/00	4.000	101.1510	3.05	-0.01	-0.11	+0.07	-0.55
	04/09	5.000	105.4750	4.32	-0.04	-	+0.35	-0.39
France	07/00	4.000	101.2400	3.02	-0.04	-0.22	+0.04	-0.89
	04/05	7.250	121.2300	3.78	-0.04	-0.11	+0.28	-0.89
	04/09	4.000	98.5300	4.18	-0.05	-0.07	+0.34	-0.75
	04/29	5.500	108.4700	5.06	-0.04	-0.08	+0.34	-0.41
Germany	05/01	5.000	104.0000	3.07	-0.05	-0.15	+0.10	-0.72
	01/05	8.000	112.3500	3.69	-0.04	-0.10	+0.30	-0.80
	01/09	3.750	97.3900	4.08	-0.03	-0.05	+0.27	-0.82
	07/28	4.750	95.4300	5.05	-0.08	-0.08	+0.31	-0.46
Greece	03/00	9.800	100.4946	9.26	-0.10	-0.24	-0.49	-5.29
	01/09	6.300	102.3000	5.96	-0.01	-0.19	-0.17	-4.27
Ireland	10/01	6.500	108.0400	3.22	-0.02	-0.14	+0.08	-1.40
	08/08	6.000	113.4000	4.24	-0.04	-0.07	+0.24	-0.80
Italy	07/01	4.600	102.8700	3.19	-0.02	-0.16	+0.11	-1.26
	07/03	4.500	103.7500	3.58	-0.02	-0.13	+0.16	-1.14
	05/09	4.500	101.8800	4.27	-0.03	-0.07	+0.26	-0.80
	11/27	6.800	118.5800	5.24	-0.03	-0.02	+0.35	-0.48
Japan	12/00	6.900	111.6570	0.26	-	-	-0.32	-0.29
	12/03	4.100	114.8870	0.90	-0.02	-0.04	-0.43	-0.26
	06/08	1.800	100.9940	1.68	-0.03	-0.01	-0.30	+0.06
	09/18	2.300	95.5250	2.69	-0.03	+0.02	-0.23	+0.11
Netherlands	01/01	6.000	110.3800	3.06	-0.04	-0.18	+0.11	-0.83
	07/08	3.750	96.3100	4.28	-0.02	-0.06	+0.31	-0.67
New Zealand	02/01	8.000	105.2444	6.06	-0.08	-0.01	+0.01	-2.46
	07/09	7.000	108.4169	5.90	-0.08	+0.08	+0.29	-0.83
Norway	05/01	7.000	104.1000	4.98	-	-0.03	+0.15	+0.70
	05/09	5.500	103.6500	5.03	-0.02	-	+0.34	-0.24
Portugal	03/00	6.375	102.3700	2.97	-0.03	-0.13	-0.09	-1.08
	06/08	5.375	108.2800	4.27	-0.05	-0.08	+0.30	-0.82
Spain	01/01	6.000	103.5500	3.02	-	-0.16	+0.06	-1.07
	07/09	5.150	104.9700	4.64	-0.05	-0.08	+0.58	-0.68
Sweden	05/00	10.250	107.5363	3.35	-0.01	-0.07	+0.06	-1.32
	05/08	6.500	114.6157	4.51	+0.02	+0.02	+0.41	-0.89
Switzerland	06/00	4.500	103.7400	1.41	-0.06	-0.04	-	-0.19
	01/08	4.250	116.7000	2.15	-0.04	-0.19	-0.18	-0.84
UK	11/01	7.000	105.0000	4.98	-0.04	-0.10	+0.31	-1.67
	12/03	6.500	107.3400	4.79	-0.04	-0.08	+0.40	-1.34
	12/09	5.750	109.5400	4.61	-0.04	-0.08	+0.27	-1.36
	12/28	6.000	122.1600	4.62	-0.02	+0.01	+0.35	-1.21
US	01/01	4.500	99.0309	5.04	-	-0.16	+0.22	-0.52
	02/04	4.750	98.4010	5.12	-	-0.18	+0.25	-0.60
	11/08	4.750	96.7639	5.18	-	-0.20	+0.17	-0.55
	02/29	5.250	95.5984	5.55	+0.01	-0.13	+0.11	-0.44

London closing * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax of 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Mar 10	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.63	+1.53	+0.45	Netherlands	4.23	+0.13	-0.95
Austria	4.39	+0.29	-0.79	New Zealand	5.90	+1.80	+0.72
Belgium	4.30	+0.20	-0.88	Norway	5.03	+0.93	-0.15
Canada	5.26	+1.16	+0.08	Portugal	4.35	+0.25	[illegible]
Denmark	4.45	+0.35	-0.73	Spain	4.38	+0.28	-0.80
Finland	4.35	+0.25	[illegible]	Sweden	4.54	+0.44	-0.64
France	4.17	+0.07	-1.01	Switzerland	2.33	-1.77	-2.85
Germany	[illegible]	-	-1.08	UK	4.70	+0.60	-0.48
Greece	6.07	+1.97	+0.89	US	5.18	+1.08	-
Ireland	4.30	+0.20	-0.88				
Italy	4.30	+0.20	-0.88				
Japan	1.74	-2.36	-3.44				

Source: Interactive Data/FT Information. London closing, * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Mar 10	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	94.2489	[illegible]	-0.16	-0.07	[illegible]
Poland	07/04	7.125	[illegible]	105.1829	5.95	+0.03	-0.01	+0.83
Russia	06/07	10.000	n/a	[illegible]	43.12	-4.72	+0.11	+37.96
LATIN AMERICA								
Argentina	09/27	9.750	BB	83.4380	11.77	-0.20	-0.08	+6.25
Brazil	05/27	10.125	B+	66.6250	15.31	-0.14	-0.73	+9.79
Mexico	05/26	11.500	BB	[illegible]	10.66	-0.01	[illegible]	+5.16
ASIA								
China	07/06	7.750	BBB+	100.4000	7.67	-0.11	-0.03	+2.53
Philippines	10/16	8.750	BB+	92.5000	9.64	-0.06	+0.16	+4.33
Thailand	04/07	7.750	[illegible]	100.2500	7.71	-0.19	-0.31	+2.55
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	101.9823	7.49	+1.16	+1.41	+2.50
South Africa	10/06	8.375	BB+	99.3561	8.49	-0.07	-0.81	[illegible]
Turkey	09/07	10.000	B	91.3911	11.62	-0.09	-0.58	[illegible]
BRADY BONDS								
Argentina	03/23	5.750	BB	69.5000	[illegible]	-0.10	-0.17	+3.71
Brazil	04/14	5.000	B+	60.1250	13.92	-0.17	-1.02	+8.65
Mexico	12/19	6.250	BB	77.1250	8.64	-0.07	-0.11	+3.27
Venezuela	03/20	6.750	B+	64.8750	11.09	-0.09	+0.13	+5.70

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	109.82	110.07	+0.30	110.22	109.80	45,689	67,762

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
97	0.02	-	0.18	3.38	-	3.53
98	-	-	0.09	4.37	-	4.43
99	-	-	0.04	5.37	-	5.37
100	-	-	0.02	5.87	-	6.37

Est. vol. total, Calls 1,864 Puts 0. Previous day's open int., Calls 1,278 Puts 1,765

Germany

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113.20	113.24	+0.21	113.44	113.00	632,292	568,149

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106.46	106.47	+0.07	106.52	106.38	180,378	221,722

NOTIONAL LTB SWAP FUTURES (LIFFE)* 5yr 4.0% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		101.33	+0.18			0	947

NOTIONAL LTB SWAP FUTURES (LIFFE)* 10yr 4.5% DM250,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		100.58	+0.29			0	845

Also traded on APT. All Open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	112.38	112.40	+0.24	112.86	112.23	9602	37354

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	115.45	115.48	+0.33	115.68	115.34	19,373	28,368
Jun	97.05	97.13	+0.11	97.25	96.97	231	186

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		107.93	+0.08			0	63
Jun		107.63	+0.08			0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	115.38	115.59	+0.51	115.70	115.31	1268	8053
Jun	115.70	116.19	+0.56	116.35	115.70	34265	75687

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS Jun	CALLS Sep	PUTS Jun	PUTS Sep
11550	1.89	2.56	1.20	1.87
11600	1.57	2.30	1.38	2.11
11650	[illegible]	2.06	1.64	2.37
11700	1.12	1.83	1.93	2.64
11750	0.94	1.62	2.25	2.93
[illegible]	0.78	[illegible]	2.59	3.24

Est. vol. total, Calls 568 Puts 1136. Previous day's open int., Calls 6717 Puts 7807

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	121-21	121-22	+0-03	121-27	[illegible]	42,739	114,594
Jun	[illegible]	121-06	[illegible]	122-11	[illegible]	[illegible]	558,553
Sep	-	120-21	-	-	119-21	646	15,746

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	[illegible]	132.88		[illegible]	132.69	512	n/a
Jun	131.78	131.65		[illegible]	131.55	1540	n/a

Euro

€ BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	106.30	[illegible]	+0.56	106.30	106.30	1	144

US CORPORATE BONDS

Mar 9	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	104.5710	5.70	-0.12	+0.27	+5.70
NY Tel	08/25	7.00	A+	99.1985	7.08	-0.08	+0.12	+1.52
CWE	05/08	8.00	BBB	112.3941	6.29	-0.12	+0.22	+1.02
FINANCIALS								
GECC	05/07	8.75	AAA	118.0184	5.93	-0.13	+0.15	+0.79
Banc One	08/02	7.25	A	104.2578	5.84	-0.10	-0.22	+3.84
CNA Fin	01/18	6.95	A–	93.5530	7.59	-0.03	+0.22	+2.05
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0229	5.65	-0.03	-0.17	+1.13
Wal Mart	08/02	8.75	AA	103.7719	5.43	-0.11	-0.28	+5.43
Dayton Hud	06/21	9.70	A–	132.5335	6.83	-0.07	+0.22	+1.25
AGENCIES								
FHLMC	04/07	7.14	N/A	109.1499	5.71	-0.12	+0.14	-0.53
SLMA	03/00	7.50	N/A	102.1969	5.24	-0.08	+0.07	-0.72
FNMA	02/18	8.95	N/A	131.8176	6.09	-0.08	-0.17	+0.55
FFCB	08/06	8.95	N/A	118.4256	5.63	-0.13	-0.11	+0.45
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.7500	0.00	-	-	-
AK Stl	12/01	9.13	BB–	104.5000	0.00	-	-	-
Pacalla	08/04	10.75	B–	84.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest — Treasury Bills and Bond Yields

Prime rate	7¾	One month	-	Two year	5.02
Broker loan rate	6⅞	Two month	-	Three year	5.05
Fed.funds	4⅞	Three month	4.60	Five year	5.12
Fed.funds at intervention	-	Six month	4.67	10-year	5.18
		One year	4.76	30-year	5.56

INTERNATIONAL BONDS

Mar 10	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
US $								
EIB	04/07	7.250	AAA	108.8935	5.87	-0.03	+0.34	+0.71
ABN Amro	06/07	7.125	AA–	105.0167	6.32	-0.03	+0.12	+1.16
Quebec	01/07	7.000	A+	106.2583	5.99	-0.03	+0.07	+0.83
Citicorp FRN	02/04	5.056	AA–	99.1155	5.27	-0.03	-0.35	+0.15
DM								
Bayer L–Bk	03/04	9.800	AAA	118.9631	5.75	-0.06	+0.29	+0.20
Toronto (M of)	06/04	6.500	AA+	112.2388	5.70	-0.06	+0.34	+0.15
Bell Canada	07/08	10.625	A+	101.5181	5.69	-0.06	[illegible]	+1.26
Deutsche B FRN	09/02	5.875	AA+	100.3573	5.76	-0.07	+0.24	+0.29
£								
EIB	12/07	7.625	AAA	115.5500	5.34	-0.02	+0.44	+0.62
Dresdner Bk	12/07	7.750	AA–	110.6586	6.13	-0.06	[illegible]	+1.31
British Gas	03/03	7.625	A+	101.9100	5.56	+0.06	-0.05	+0.86
Abbey Nat FRN	02/02	5.597	AA	100.0163	4.46	-0.05	+0.21	-0.41
SFR								
EIB	01/08	3.750	AAA	104.8236	3.12	-0.06	-0.17	[illegible]
Brit Columbia	02/02	3.250	AA	103.7908	1.91	-0.03	-0.01	+0.28
Hydro–Quebec	05/01	6.750	n/a	[illegible]	2.55	-0.05	-0.01	+1.04
Gen Elect.	09/01	1.711	n/a	99.7640	1.80	-0.04	-0.01	-0.01
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.3201	0.46	-0.02	-0.32	-0.03
Spain (Kingdom)	03/02	5.750	AA	115.6751	0.51	-0.02	-0.38	+0.02
Cred Foncier	06/02	4.750	A	112.5409	0.96	-0.02	-0.39	+0.49
Italy (Rep of)	07/99	0.516	AA	100.0653	0.18	-0.09	-0.21	-
A$								
IBRD (World Bk)	02/08	8.000	AAA	101.0185	5.85	-0.07	+0.22	+0.24
New Sth Wales Tr	05/06	6.900	n/a	103.5950	5.87	-0.07	+0.23	+0.36
S. Aus Gov Fin	06/03	7.750	AA	106.8539	5.88	-0.03	+0.19	+0.58
GMAC Aust	06/01	8.000	n/a	106.5217	5.72	-0.04	+0.13	+0.83

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Mar 10	Day's chge %	Accrued interest	xd adj ytd	Total Return	Duration Years	Duration Yield	% Weight
1 Up to 5 years (16)	120.77	+0.12	1.87	1.91	1201.55	2.31	4.90	34.29
2 5-10 years (11)	169.35	+0.29	2.92	1.06	1320.25	5.87	4.79	29.37
3 10-15 years (7)	183.00	+0.42	2.55	1.34	1433.56	8.68	4.74	13.48
4 5-15 years (18)	173.91	+0.33	2.81	1.14	1352.66	6.74	4.77	42.85
5 Over 15 years (4)	228.59	+0.43	2.71	1.23	1548.64	11.84	4.72	22.09
6 Irredeemables (4)	312.55	+0.83	3.93	1.07	1819.77	20.91	4.83	0.76
7 All stocks (42)	164.21	+0.28	2.46	1.56	1340.39	6.44	4.77	100.00

UK Indices

Index-linked	Wed Mar 10	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	224.94	+0.05	2.15	0.00	1168.10	14.97
2 Over 5 years (9)	258.55	+0.24	1.11	2.15	1404.48	85.03
3 5-15 years (5)	241.24	+0.22	0.89	2.03	1305.93	42.71
4 Over 15 years (4)	274.58	+0.26	1.35	2.29	1495.69	42.32
5 All stocks (11)	252.34	+0.21	1.28	1.79	1370.93	100.00

Yield indices	Mar 10	Mar 9	Yr ago	Yield indices	Mar 10	Mar 9	Yr ago
5 yrs	4.83	4.88	6.21	Irred †	4.83	4.86	6.09
10 yrs	4.78	4.79	6.01	Med. 15 yrs	4.78	4.79	5.98
15 yrs	4.74	4.78	5.97	High 15 yrs	4.83	4.86	6.09
20 yrs	4.74	4.78	5.96				

Coupon Bands: Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

Real yield	Inflation 0% Mar 10	Dur yrs	Mar 9	Yr ago	Inflation 5% Mar 10	Dur yrs	Mar 9	Yr ago
Up to 5 yrs	3.15	3.29	3.16	3.52	2.36	3.29	2.37	2.74
Over 5 yrs	2.06	13.30	2.08	3.15	1.86	13.40	1.88	[illegible]
5-15 yrs	2.12	9.68	2.14	3.20	[illegible]	9.72	1.88	2.89
Over 15 yrs	2.02	17.01	2.04	3.13	[illegible]	17.10	[illegible]	2.96
All Stocks	2.10	11.74	2.12	3.16	1.88	11.86	1.90	2.94

FT Fixed Interest Indices

	Mar 10	Mar 9	Mar 8	Mar 5	Mar 4	Yr ago	High*	Low*
Govt. Secs. (UK)	112.74	112.50	113.03	113.18	112.01	N/A	117.17	93.31
Fixed Interest	153.38	153.41	153.85	154.27	153.27	N/A	158.45	115.32

 * for 1998/99. Government Securities high since compilation: 127.40 (1/9/35), low 49.18 (3/3/75). Fixed interest high since compilation: 158.45 (22/01/99), low 50.33 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas Flg Rate 1999		–	–	100.0000xd		100.23	100.00
Exch 12¼pc 1999		12.22	5.33	100.2742	-.0219	105.19	100.27
Treas 10½pc 1999		10.40	5.13	101.0067	-.0076	104.08	101.01
Treas 6pc 1999		5.97	4.85	100.4292	+.0075	100.50	98.64
Conv 10¼pc 1999		9.90	4.98	103.5643	+.0177	105.52	103.55
[illegible]							

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Exch 10½pc 2005	☆	8.00	4.82	131.2739	+.2640	135.46	124.50
Treas 12½pc 2003-5		9.50	4.32	131.6168	+.1957	135.55	127.40
Treas 8½pc 2005		7.02	4.80	121.1022	+.2941	125.31	113.95
Conv 9½pc 2005	☆	7.44	4.85	131.1352	+.3693	136.21	123.58
Treas 7¾pc 2006		6.57	4.86	118.0018xd	+.3457	122.40	110.47
Treas 8pc 2002-6		7.30	5.02	109.5470	+.1036	111.73	104.96
[illegible]							

Index-Linked	Notes	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
2½pc '99	☆	1.75	3.23	195.4980	+.0792	198.18	190.07
2½pc '01	(78.3)	2.61	3.04	202.7069	+.0792	206.40	198.89
2½pc '03	(78.8)	2.22	2.48	204.4504	+.1100	207.83	194.46
4⅛pc '04	(135.6)	1.92	2.12	132.6400	+.1179	134.39	125.58
2pc '06	(69.5)	1.68	1.83	234.2350	+.4300	236.05	209.33
[illegible]							

Other Fixed Interest

[illegible]						

CURRENCIES & MONEY

Bear market reigns despite euro rally

MARKETS REPORT

By Alan Beattie and Melanie Carroll

The euro recovered from recent lows yesterday but failed to make a significant break upwards.

Despite recent talk of the new currency approaching parity with the dollar, the euro rose above the $1.09 level against the dollar yesterday. But it stopped short of $1.10, leaving it vulnerable to further falls. The euro closed at $1.096 against the dollar in London yesterday.

The strength of sterling against the dollar yesterday after the UK's Budget, which some in the market have seen as being mildly expansionary, may have helped the euro.

With the euro's rise yesterday being limited, few in the market thought the currency's downward trend would be reversed.

"This looks like a classic bear market rally," said Nick Parsons, currency strategist at Paribas in London. "It could go as high as $1.1025, but I don't think we have seen the low of the euro yet."

Mr Parsons said that with the story about the relative strengths of US and euro-zone economies well established, the market needed another excuse to continue selling the euro. "And with only retail sales data out this week, and the market already having priced in a high figure, it doesn't look like it we are going to get it very soon," he said.

■ Short sterling contracts clawed back some of their losses today after yesterday's sell-off following the announcement of the UK Budget.

Having digested analysts' views on the fiscal stance, traders evidently decided that some of late Tuesday's bearish reaction had been a little overdone.

Contracts at the front end of the strip gained up to 7 points yesterday, regaining more than half of the ground lost on Tuesday. Implied base rates now trough at between 5 and 5¼ per cent towards late 1999.

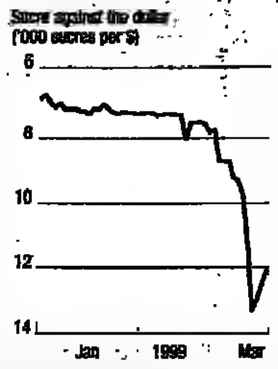
■ The Pakistani government yesterday relaxed some of the foreign exchange restrictions brought in last July after international sanctions were imposed.

From Thursday, exporters will be able to sell 95 per cent of their foreign exchange earnings at the market rate and 5 per cent at the official rate, replacing the earlier 80/20 split.

The decision increases the possibility that the government will soon move back to a single market-based rate, as demanded by the International Monetary Fund.

Ecuador

Sucre against the dollar ('000 sucres per $)



Source: Datastream/ICV

■ Ecuador's currency crisis is unlikely to lead to the government pegging the sucre to the dollar via a currency board, market analysts say.

Ecuador entered crisis mode this week, with the government announcing two bank holidays to prevent further falls in the currency during a general strike.

Nick Douch, emerging markets analyst at Barclays Capital, said a currency board could provide stability because the government is unable to print money.

"It's also about belief - the theory goes that because people can convert to the dollar means that they won't."

But the country has too few reserves to cover a currency board, with $1.2bn in the bank against $1.6bn in external debt, he said.

The IMF would only intervene if it decided Ecuador was important enough, he added.

"The IMF doesn't want debt defaulters but it also doesn't want to lend if it doesn't think the government will do something," Mr Douch said.

In contrast, the Brazilian Real gained some short-term stability this week, closing in London at R$1.86 against the dollar yesterday.

Markets rewarded the Real after the long-awaited IMF-inspired fiscal package entered the Brazilian congress yesterday. But even if the bill is passed, no benefits will appear until the second half of the year, Mr Douch said.

"In the meantime interest rates must be kept high to stop inflation," he said.

He criticised recent government intervention in the currency markets.

"It's not a nice way out, but I think a recession would do a lot of what is needed to reduce the current account deficit," he added.

■ POUND IN NEW YORK

Mar 10	Latest	Prev. close
£ spot	1.6270	1.6185
1 mth	1.6262	1.6178
3 mth	1.6254	1.6170
1 yr	1.6284	1.6179

■ OTHER CURRENCIES

Mar 10		£	$
Czech	Rp	56.1801 - 56.2798	34.5320 - 34.5720
Hungary		375.602 - 376.159	230.870 - 231.070
Iran		4883.70 - 4880.70	3000.00 - 3000.00
Kuwait		0.4957 - 0.4962	0.3047 - 0.3048
Peru		5.5315 - 5.5381	3.4000 - 3.4000
Poland		6.3888 - 6.4090	3.9270 - 3.9370
Russia		37.9393 - 38.0440	23.3200 - 23.3700
U.A.E.		5.9753 - 5.9798	3.6728 - 3.6733

POUND SPOT FORWARD AGAINST THE POUND

Mar 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.4414	+0.0332	314 - 514	20.4890	20.3411	20.401	2.4	20.3224	2.3	19.997	2.2	102.8
Belgium*	(BFr)	[illegible]	+0.0973	[illegible]	60.0070	59.6330	59.8077	2.4	59.5773	2.3	[illegible]	2.2	102.2
Denmark	(DKr)	11.0408	+0.0174	341 - 474	11.0637	10.9852	11.021	2.2	10.9851	2.0	[illegible]	1.8	[illegible]
Finland*	(FM)	8.8326	+0.0143	[illegible]	8.8440	8.7890	8.8151	2.4	8.7812	2.3	8.6406	2.2	81.0

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 10		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J P Morgan index
Europe													
Austria*	(Sch)	12.5608	-0.0778	585 - 630	12.6508	12.5413	12.5419	1.8	12.5006	1.9	12.2916	2.1	102.3
Belgium*	(BFr)	[illegible]	-0.2283	100 - 300	37.0870	36.7660	36.7679	1.8	36.6469	1.9	36.0339	2.1	102.2
Denmark	(DKr)	6.7843	-0.0424	[illegible]	6.8379	6.7759	6.7754	1.6	6.757	1.6	[illegible]	1.8	104.7
Finland*	(FM)	5.4274	-0.0337	264 - 284	5.4663	5.4190	5.4192	1.8	5.4014	1.9	5.3111	2.1	80.3
France*	(FFr)	5.9877	-0.0372	[illegible]	6.0307	5.9785	5.9788	1.8	5.9591	1.9	5.8594	2.1	104.9

Euro swiss franc options (LIFFE) SFr1m 100-rate

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
98750	0.010	0.100	0.110	0.100	0.290	0.400
98875	0.005			0.220		

WORLD INTEREST RATES

MONEY RATES

Mar 10	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Euro-zone	3	3⅛	3⅛	3⅛	3⅛	–	3.00	3.00
Switzerland	1½	1⅛	1⅛	1⅛	1⅛	–	1.00	–
US	4⅝	4⅞	4⅞	[illegible]	5¼	–	4.50	–
Japan	⅛	⅛	⅛	⅛	⅛	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	4⅞	5	5⅛	5⅛	–	–	–
US Dollar CDs	–	4.72	4.77	4.83	5.01	–	–	–
Euro Linked Ds	–	3⅛	3⅛	3⅛	3⅛	–	–	–
SDR Linked Ds	–	3⅛	3⅛	[illegible]	3⅛	–	–	–
BBA Euro Libor	–	3⅛	3⅛	3⅛	3⅛	–	–	–
Euro Euribor	–	3.086	3.081	3.055	3.078	–	–	–
EONIA	3.02	–	–	–	–	–	–	–
EURONIA	3.0103	–	–	–	–	–	–	–

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am. Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds)

INTERNATIONAL CURRENCY RATES

Mar 10	Short term	7 days notice	One month	Three months	Six months	One year
Euro	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3	3⅛ - 3	3⅛ - 3	3⅛ - 3
Danish Krone	3⅞ - 3¼	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜	3⅞ - 3⅜
Sterling	5⅛ - 5	5⅜ - 5⅛	5⅜ - 5⅜	5⅜ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅜
Swiss Franc	1½ - ⅞	1¼ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅛ - 1⅛	1⅞ - 1⅞
Canadian Dollar	5 - 4¾	5⅛ - 4⅞	5 - 4⅞	5⅛ - 4⅞	5 - 4⅞	5⅛ - 5⅛
US Dollar	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞	5⅛ - 4⅞	5⅜ - 5⅛
Japanese Yen	¼ - ⅛	¼ - ⅛	¼ - ⅛	¼ - ⅛	⅛ - ⅛	⅜ - ⅛
Asian $Sing	½ - ⅜	2¼ - 1⅞	1½ - 1⅛	1⅞ - 1⅝	2⅜ - 2⅛	3⅛ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.92	96.93	+0.10	96.93	96.92	3,495	34,587
Jun	97.07	97.06	–	97.08	96.05	7,380	31,976

■ THREE MONTH EUROMARK FUTURES (LIFFE) €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	96.930	[illegible]	+0.010	96.930	96.925	15341	139571
Jun	97.075	97.060	+0.005	97.075	97.055	29563	158495

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

■ D-MARK FUTURES (CME) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5570	0.5607	+0.0038	0.5613	0.5582	13,244	45,037
Jun	0.5596	0.5633	+0.0038	0.5639	[illegible]	13,578	29,936
Sep	–	0.5655	+0.0030	0.5655	–	1	187

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.6844	0.6850	+0.0024	0.6853	0.6842	10,357	32,200
Jun	0.6884	0.6909	+0.0022	[illegible]	0.6871	18,818	44,591
Sep	–	0.6970	+0.0020	0.6970	–	2	321

UK INTEREST RATES

LONDON MONEY RATES

Mar 10	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅛ - 4¾	5½ - 5⅛	5½ - 5⅜	5⅜ - 5⅛	5⅜ - 5⅛	5⅜ - 5⅛
Sterling CDs	-	-	5⅜ - 5⅜	5⅜ - 5⅜	5⅛ - 5⅛	5⅛ - 5⅜
Treasury Bills	-	-	5⅜ - 5⅜	5⅜ - 5⅜	-	-
Bank Bills	-	-	5⅜ - 5⅜	5⅜ - 5⅜	-	-
Local authority deps.	5⅛ - 5⅛	5⅛ - 5⅛	5⅜ - 5⅜	5⅜ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛
Discount Market deps	5½ - 5⅜	5½ - 5⅜	-	-	-	-

UK clearing bank base lending rate 5½ per cent from Feb 4, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	5.5	5.5	5.25	5.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 5 5.0429pc. ECGD fixed rate Stg. Export Finance. Make up day Feb 26, 1999. Agreed rate for period Mar 26, 1999 to Apr 27, 1999, Scheme III 6.80pc. Reference rate for period Jan 30, 1999 to Feb 26, 1999 Schemes IV & V 5.550pc. Finance House Base Rate 6.0pc for Mar 1999

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.540	94.540	+0.010	94.550	94.540	8329	159588
Jun	94.760	94.785	+0.050	94.800	94.730	32603	182763
Sep	94.770	94.825	+0.070	94.840	94.760	47370	188984
Dec	94.555	94.605	+0.095	94.630	94.540	13210	146316
Mar	94.670	94.740	+0.095	94.750	94.660	13864	[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
94500	0.050	0.340	0.435	0.010	0.055	0.110
94625	0.005			0.090		
94750	0	0.175	0.280	0.210	0.140	0.205
94875	0			0.335		
95000	0	0.070	0.160	0.460	0.285	0.335
95125	0			0.585		

Est. vol. total, Calls 31130 Puts 6503. Previous day's open int., Calls 597072 Puts 655030

EMS EUROPEAN CURRENCY UNIT RATES

Mar 10	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
NON ERM MEMBERS						
UK	0.653644	0.67460	-0.0008	3.21	-3.46	–

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92: Sterling suspended from ERM. 16/3/98. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Mar	Calls Apr	Calls May	Puts Mar	Puts Apr	Puts May
1.600	1.87	2.64	[illegible]	0.06	0.96	1.41
1.610	[illegible]	2.05	2.56	0.20	1.28	[illegible]
1.620	0.85	1.53	2.09	0.49	1.71	2.31

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls Mar	Calls Apr	Calls May	Puts Mar	Puts Apr	Puts May
0.560	0.10	0.54	0.75	0.35	0.79	0.93
0.565	0.04	0.36	0.55	0.80	1.11	1.22
0.570	0.02	0.25	0.41	1.28	-	-

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.00	95.00	–	95.01	95.00	[illegible]	391,404
Jun	94.94	94.94	–	94.94	94.86	88,974	453,337
Sep	94.52	94.60	-0.01	94.83	94.67	198,742	481,089

■ US TREASURY BILL FUTURES (CME) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.53	95.53	–	[illegible]	[illegible]	135	1,620
Jun	95.56	95.57	+0.01	95.57	95.56	109	2,043

All Open interest figs. are for previous day

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	[illegible]	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association

Poor year for British Columbian forestry

By Scott Morrison in Toronto

British Columbia's forest products industry suffered a disastrous 1998, in which the province's forestry companies lost a combined C$1bn (US$660m), according to preliminary estimates by PricewaterhouseCoopers.

Mike MacCallum, forestry analyst at the professional services company, said the sector's operating profits were not expected to improve markedly this year, although write-downs should not affect the bottom line as much as they did in 1998.

Write-downs, restructuring charges and foreign exchange losses accounted for more than half the industry's losses last year. Pulp was the biggest loser, accounting for C$400m in after-tax losses. Solid wood accounted for C$60m.

The only improvement was in newsprint, which had after-tax profits of C$50m, compared with a C$65m loss in 1997, improved results in newsprint were not enough to prevent the province's forestry industry from posting its largest collective loss.

The industry posted a collective loss of C$132m in 1997, prompting sources to then predict it had hit bottom. Further operating losses are expected in 1999, which would be the fourth consecutive year the sector had lost money.

Mr MacCallum said total 1999 sales by the province's forestry groups were expected to be about C$15bn, the same as in 1996 but down from C$16.2bn in 1997.

British Columbia's forestry companies are a significant component of Canada's forest products sector and the province's primary industry. It has been hit hard by high production costs, low commodity prices, weak Asian demand and limited access to the US market.

Little anxiety in Australia but debate is growing

Genetically modified blue carnations have not caused concern, but then the flowers are not eaten, writes **Stephen Wyatt**

Genes and crops

For many Australians, genetic engineering means blue carnations rather than genetically engineered destruction.

Branded Moondust, a new genetically engineered blue carnation will be marketed throughout Europe later this year by Florigene Flowers. Genetic modification (GM) will allow the flowers to last longer by introducing a gene that suppresses the production of an enzyme that promotes wilting.

So far, in Australia, this has not created any concern but then, the flowers are not eaten, and the genetic engineering does not involve work on animals.

It produces little of the anxiety caused by transferring the antifreeze gene from arctic fish to create frost-resistant tomatoes, genes from bacteria to create insect-fighting cotton and potatoes, or insecticide-resistant soyabeans, corn and canola. There is none of the angst provoked by genetically altering animals to create replacement organs.

In Australia, sentiment is not nearly as negative as it is in continental Europe and the UK. Last month, the Australian and New Zealand Food Association, the body empowered to rule on the safety and wholesomeness of all foods, pronounced genetically modified cotton and soyabeans safe.

Genetically modified cotton has now been grown in Australia for three years and farmers have embraced it. Some 30 per cent of Australia's cotton crop is now genetically modified.

The leaves of the cotton plant produce a natural insecticide and this has reduced the spraying of insecticides on GM cotton fields by 50 per cent, with some fields receiving 90 per cent less spraying.

Based on 1997/98 plantings of 64,000 hectares, Monsanto, which developed the GM Ingard or Bt cotton, calculates that the amount of insecticide usage has been reduced by 738,000 litres.

Cotton is the only commercially produced transgenically altered crop in Australia at the moment but, according to Professor Nancy Millers, chairman of the Genetic Manipulation Advisory Committee, a government body responsible for the development and use of genetic modifying techniques, "every single commercial crop in Australia, and indeed anywhere, has been genetically altered", albeit by plant breeding.

Thousands of people around the world have implanted pig heart valves, many exported from Australia. "Why is it that this does not get a great reaction, yet engineering a whole pig heart does?" asks Oliver Mayo, chief of animal production at the CSIRO, the government research group.

The debate, nevertheless, is growing. In the coming months, the Australia and New Zealand Food Authority will rule on the safety of GM insecticide-resistant "Roundup Ready" cotton, corn, canola and Bt corn.

Australian fast food operators are preparing for a possible increase in consumer concern. McDonald's has confirmed that none of its products contains genetically modified foods, although it acknowledges that screening is not easy as 10 per cent of its cooking oil comes from cottonseed oil.

At the same time the Australian and New Zealand Food Standards Council voted last December to require the labelling of genetically modified food.

There are now calls for reform to streamline the control of GM products. A variety of state government and Commonwealth government bodies currently control different areas of the genetic products industry.

The Commonwealth government proposed the establishment of a Gene Technology Office in late 1997 to oversee the research, development and uses of gene technology. It has still not been established.

There is conflict at the Commonwealth level over which department should oversee the GM industry. Mark Vaille, agriculture minister, wants control of food from pasture to plate.

Consumer and medical groups argue that it is vital that the sectors of government that set standards be separate from those that promote and support industry. They prefer control to stay with the Ministry of Health.

In the international arena, the Australian government has tended to side with other agricultural exporters, such as the US, Canada and Argentina. This was evident at recent talks in Colombia on the UN Safety Protocol, which is aimed at protecting native animal and plant species from contamination by GM crops and animals.

These talks broke down, with the US-led Miami group, which included Canada, Argentina and Australia, arguing that billions of dollars of agricultural trade, an increasing proportion of which is genetically modified, would be hit by unnecessary bureaucratic controls.

Australian farm, food and biotech industry groups argued that a protocol could lead to a pervasive new category of trade restrictions on promising agrifood exports.

In the interim, consumers are happy to purchase products from supermarkets, up to half of which include some form of genetically modified product, walk about with pig valves in their hearts and wear shirts made from cotton that, when eaten by insects, punches a hole in the insect's throat.

This article is the second in a series on genetically modified crops. The first appeared on March 9; the next will appear on March 16.

Genetically modified cotton has been grown in Australia for three years, and farmers have embraced it

Brewers invest in Romanian revival

By Joe Cook in Bucharest

International brewers that have invested some $300m in Romania are pioneering the development of local barley, hops and malt farming and processing to reduce their reliance on Czech, German and Hungarian ingredients.

The moves coincide with a revival of Romania's beer industry. After a slump in production and consumption in the early to mid-1990s, beer sales increased by 35 per cent in 1998. This year the industry expects to produce about 11m hectolitres of beer, signalling a return to levels of production before the 1989 revolution.

Moreover, the Romanian palate is rapidly acquiring a taste for premium beers that require quality ingredients.

"Over the next three to five years we foresee an increase in demand for quality barley," said John Gore, chairman of Brewery Holdings, a UK company with majority stakes in three Romanian brewers.

South African Breweries, that has invested more than $60m, is already working with Soufflet, the French maltster, and local farmers to import and grow malting barley. Brewery Holdings and Dalgety Spillers, the UK seed and farm feed producers, have held extensive discussions to the same end.

International brewers are prepared to pre-finance the import and cultivation of quality barley seed in exchange for exclusive supply contracts. Mr Gore envisages modern malting facilities with annual capacity of 100,000 tonnes will be built within three years.

Brewery Holdings, which imports 70 per cent of its hop requirements from the Czech Republic and Germany, paying import duties of 21 per cent a tonne, is also keen to revive Romania's once large hop industry.

Reports of producer talks lift crude oil prices

MARKETS REPORT

By Robert Corzine and Gillian O'Connor

Reports that oil ministers and senior officials from leading members of the Organisation of Petroleum Exporting Countries and some non-Opec producers will meet today in Amsterdam for talks on a new round of production cuts gave a boost to prices of crude oil yesterday.

The producers meeting, which will include Saudi Arabia, Mexico and Venezuela, the three biggest exporters to the US oil market, the world's biggest, follows an agreement between some of the leading Gulf Arab oil producers, including Saudi Arabia and Kuwait, on the need for a new round of "substantial" production cuts.

The bellwether Brent Blend contract for April delivery was quoted at $11.97 a barrel in late trading on London's International Petroleum Exchange, up 41 cents on Tuesday's close.

The latest flurry of oil diplomacy is taking place against a backdrop of continuing weakness in the global oil market.

Yesterday, the International Energy Agency reported that, although growth in world oil demand this year was expected to recover from the dismal levels of last year, the estimated 1.2 per cent rate of growth would still be well below the 1.75 per cent average for 1990 to 1997.

January's rise in aluminium stocks had analysts nostalgically harking back to the former producer cartel. The International Primary Aluminium Institute announced yesterday that total stocks rose to 3.182m tonnes at end-January, the highest since April 1998, while producer stocks were the highest since September 1996 at 1.734m tonnes.

However, French group Pechiney accompanied a profits warning yesterday with a statement that it is to reactivate the remainder of its idled Pyrenean capacity.

Ted Arnold, analyst at Prudential-Bache, said that production surpluses persist far longer nowadays than they used to under the old cartel-like system.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1153.5-4.5	1177-8
Previous	1143-44	1166.5-67.5
High/low		1179/1158
AM Official	1146.5-47.0	1169-70
Kerb close		1177-8
Open int.	n/a	
Total daily turnover	n/a	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1018-23	1042-5
Previous	1013-18	1037-38
High/low		1045/1038
AM Official	1017-18	1040-43
Kerb close		1043-5
Open int.	n/a	
Total daily turnover	n/a	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	501.5-2.5	506-7
Previous	496.5-7.5	501-2
High/low		506/501
AM Official	496.5-97.0	500.5-501
Kerb close		504-5
Open int.	n/a	
Total daily turnover	n/a	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4945-55	5015-20
Previous	4880-90	4950-60
High/low		5080/4880
AM Official	4980-90	5050-60
Kerb close		5000-10
Open int.	n/a	
Total daily turnover	n/a	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5400-10	5310-15
Previous	5425-35	5350-55
High/low		5350/5300
AM Official	5400-05	5315-20
Kerb close		5300-05
Open int.	n/a	
Total daily turnover	n/a	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1032-3	1043-4
Previous	1025-26	1035-36
High/low		1043/1032
AM Official	1021.5-22.0	1033.5-34.0
Kerb close		1042-3
Open int.	n/a	
Total daily turnover	n/a	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1381-2	1409-10
Previous	1376.5-77.5	1404-05
High/low		1415/1387
AM Official	1368-69	1397-97.5
Kerb close		1407-8
Open int.	n/a	
Total daily turnover	n/a	

■ LME AM Official £/$ rate: 1.6029

LME Closing £/$ rate: 1.6287

Spot: 1.6288 3 mths: 1.6252 6 mths: 1.6249 9 mths: 1.6252

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	62.60	+0.30	63.00	62.55	518	1,917
Apr	62.95	+0.30	63.25	62.95	165	3,617
May	63.40	+0.30	63.80	62.80	[illegible]	[illegible]
Jun	63.80	+0.25	64.00	63.60	50	1,840
Jul	64.15	+0.30	64.50	63.50	280	9,851
Aug	64.50	+0.30	64.55	64.55	12	1,499
Total					7,027	74,987

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	Eur equiv
Close	292.50-293.00		
Opening	291.50-291.80		
Morning fix	291.500	179.528	266.137
Afternoon fix	291.800	179.437	266.338
Day's High	292.70-293.00		
Day's Low	291.40-291.70		
Previous close	292.20-292.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.33	6 months	4.07
2 months	4.29	12 months	3.72
3 months	4.24		

Silver Fix	p/troy oz.	US cts equiv.
Spot	322.660	524.00

Silver Lending Rates

1 month	-1.50	6 months	-1.50
2 months	-1.50	12 months	-1.50
3 months	-1.50		

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	178-180
New Sovereign	68-72	41-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	293.2	+0.8	293.0	291.0	18	16
Apr	294.2	+0.8	294.4	292.7	88,155	109.7k
Jun	296.0	+0.8	296.3	294.6	20,963	28,361
Aug	297.9	+0.8	297.6	297.4	1,378	7,999
Oct	299.8	-0.8	301.6	299.0	32	2,912
Dec	301.7	+0.8	302.0	300.5	258	13,039
Total					108,[illegible]	182,[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	368.7	-6.8	374.5	367.6	1,192	13,876
Jul	367.7	-5.8	370.0	366.0	373	3,274
Oct	367.7	-5.8	369.0	368.5	78	1,021
Total					1,649	18,176

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	[illegible]	-0.60	345.00	345.00	35	[illegible]
Jun	345.50	-0.10	346.00	344.00	148	2,838
Sep	339.50	+0.90	-	-	1	157
Total					188	3,124

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	527.8	+2.8	530.5	522.0	173	1,998
May	526.8	+2.8	530.0	521.0	9,295	46,261
Jul	527.8	+3.0	530.5	524.6	376	15,590
Sep	527.9	+3.0	531.0	523.0	22	4,202
Dec	527.3	+3.3	530.0	525.0	58	8,588
Jan	527.0	+3.3	-	-	-	11
Total					9,912	86,173

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	14.07	+0.22	14.34	13.68	91,433	101.6k
May	14.09	+0.19	14.31	13.74	59,386	105.7k
Jun	14.06	+0.16	14.26	13.75	24,928	68,499
Jul	14.00	+0.07	14.17	13.80	5,536	34,076
Aug	14.08	+0.12	14.20	13.65	5,139	20,528
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS IPE

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE

[illegible]

■ WHEAT CBT

[illegible]

■ MAIZE CBT

[illegible]

■ BARLEY LIFFE

[illegible]

■ SOYABEANS CBT

[illegible]

■ SOYABEAN OIL CBT

[illegible]

■ SOYABEAN MEAL CBT

[illegible]

■ POTATOES LIFFE

[illegible]

■ FREIGHT (BIFFEX) LIFFE

[illegible]

PULP AND PAPER

■ PULPEX (MLX)

[illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO)

[illegible]

■ COFFEE LIFFE

[illegible]

■ COFFEE 'C' CSCE

[illegible]

■ COFFEE (ICO)

[illegible]

■ WHITE SUGAR LIFFE

[illegible]

■ SUGAR '11' CSCE

[illegible]

■ COTTON NYCE

[illegible]

■ ORANGE JUICE NYCE

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME

[illegible]

■ LEAN HOGS CME

[illegible]

■ PORK BELLIES CME

[illegible]

VOLUME DATA

[illegible]

Nuts and seeds

[illegible]

JOTTER PAD

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME — Apr Jul Apr Jul

[illegible]

■ COPPER (Grade A) LME — Apr Jul Apr Jul

[illegible]

■ COFFEE LIFFE

	May	Jul	May	Jul
1600	142	43	1	58
1650	92	25	1	90
1700	43	14	1	129

■ COCOA LIFFE

	May	Jul	May	Jul
900	10	29	57	99
925	5	21	77	76
950	3	16	100	95

■ BRENT CRUDE IPE

	Apr	May	Apr	May
1150	-	99	4	27
1200	10	61	11	-
1250	1	43	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	$11.44-1.54	+0.365
Brent Blend (dated)	$11.44-1.55	+0.225
Brent Blend (Apr)	$11.97-2.02	-0.215
W.T.I.	$14.06-4.12x	+0.29

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline ‡	$126-128	
Gas Oil	$115-117	+2
Heavy Fuel Oil	$56-57	
Naphtha	$109-111	
Jet fuel	$125-126	-2
Diesel	$119-121	-3

■ NATURAL GAS (Pence/therm)

Bacton (Apr)	9.53-9.58

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)§	$292.75	+0.30
Silver (per troy oz)§	524.00c	-8.00
Platinum (per troy oz.)	$369.00	-6.00
Palladium (per troy oz.)	$345.50	-0.50
Copper	67.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.90r	
Tin (New York)	[illegible]	-1.00
Cattle (live weight)	98.89p	+2.50*
Sheep (live weight)	93.61p	+4.58*
Pigs (live weight)†	64.59p	+3.29*
Lon. day sugar (raw)	$153.50	+2.40
Lon. day sugar (wte)	$220.30	+4.40
Barley (Eng. feed)	[illegible]	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Mar)♥	45.50p	
Rubber (Apr)♥	46.00p	
Rubber (KL RSS No1)	250.50m	-4.00
Coconut Oil (Phil)§	705.0	+5.0
Palm Oil (Malay.)§	477.5y	-17.0
Copra (Phil)§	450.0z	+5.0
Soyabeans (US)	148.5y	
Cotton Outlook'A' index	58.65	-0.20
Wooltops (64s Super)	292p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. [illegible]

INDICES

■ Reuters (Base: 18/9/31 = 100)

Mar 10	Mar 9	month ago	year ago
1397.8	1392.6	1441.1	1889.0

■ CRB Futures (Base: 1967 = 100)

Mar 9	Mar 8	month ago	year ago
186.15	187.64	-	-

■ GSCI Spot (Base: 1970 = 100)

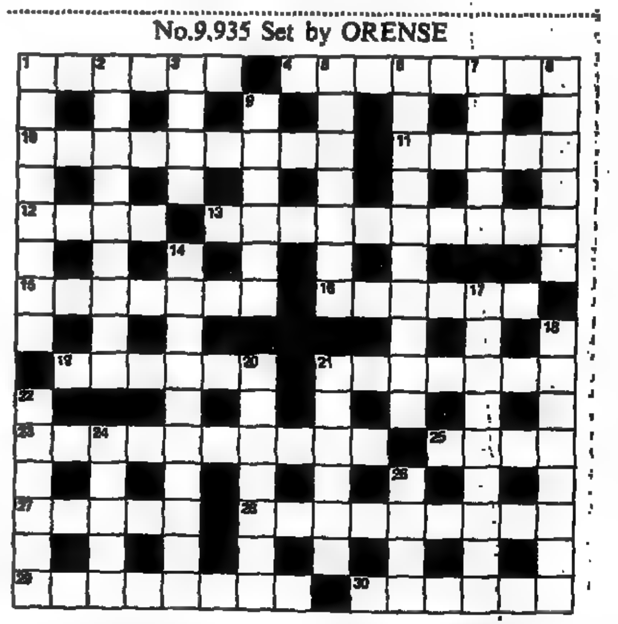
Mar 9	Mar 8	month ago	year ago
140.22	139.27	132.84	160.22

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-1,025	to	613,500
Aluminium alloy	-225	to	15,380
Copper	-425	to	595,225
Lead	-50	to	105,950
Nickel	-60	to	60,306
Zinc	+1,250	to	318,[illegible]
Tin	-245	to	8,780

CROSSWORD

No.9,935 Set by ORENSE



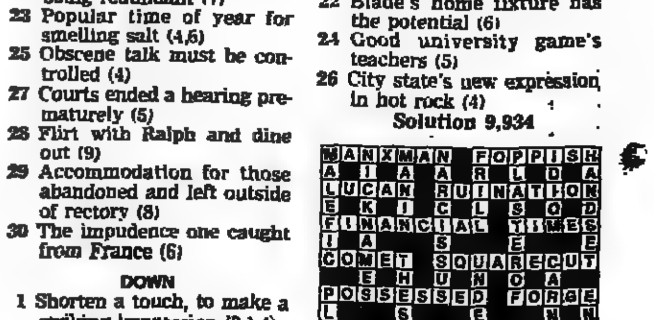
ACROSS

1 Settle by investing money in something easy (6)
4 Money supply to curtail farmers' output (4,4)
10 Experiment with scheme to adopt one new winger (4,5)
11 Noise made by escape in high performance car (5)
12 Bad first day at plant (4)
13 It is risky and needs skill plus energy (5,3,2)
15 Tries out the French – fruitless! (7)
16 Survive, under review by head of engineering (6)
19 Stalls for time in the desert (6)
21 Almost certain advantage, being redundant (7)
23 Popular time of year for smelling salt (4,6)
25 Obscene talk must be controlled (4)
27 Courts ended a hearing prematurely (5)
28 Flirt with Ralph and dine out (9)
29 Accommodation for those abandoned and left outside of rectory (8)
30 The impudence one caught from France (6)

DOWN

1 Shorten a touch, to make a striking impression (3,1,4)
2 Very rude about being in Carey Street (9)
3 Firm, supplementary note to officers (4)
5 Gold to trigger text on screen (7)
6 Abandoned – with no booze after initial euphoria (4,3,3)
7 18 holes – getting one shot! (5)
8 Drink container no one returns (6)
9 An inlet crossing line of bay (6)
14 Animal's preference, eg. for the most part (5,5)
17 Part with design, for example (4,5)
18 Mysterious, mostly secret, oil process (8)
20 Rush final editions on to overnight van (7)
21 Is told off for being dull (6)
22 Blade's home fixture has the potential (6)
24 Good university game's teachers (5)
26 City state's new expression in hot rock (4)

Solution 9,934



For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Barclays International Funds

PO Box 152, St Helier, Jersey 01534 812700

Gartmore Fund Managers Intl Ltd (z)

PO Box 278 45 La Motte St, Jersey 01534 866080

Murray Johnstone (Jersey) Limited

Newton Fund Managers (CI) Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Royal Bank of Scotland Fund Managers (CI) Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

LUXEMBOURG (FSA RECOGNISED)

Fidelity Funds - Contd.

Lloyds Bank Luxembourg - Contd.

Lombard Odier Invest (u)

13 Southampton Place, London WC1A 2AJ

Schroder International Selection Fd - Contd.

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

CMI Insurance Co Ltd

Clerical Medical Hse, Douglas I.O.M. (00) 44 1624 638888

CMI Ins Co Ltd/Clerical Med Life

Old Mutual International - Contd.

Old Mutual International (Ireland) Ltd

50 Dawson Street, Dublin 2, Ireland 003531 662 1555

AXA Investment Managers Paris

Dresdner Bank Investment Group

Dresdner Bank Investment Group - Contd.

Global Asset Management - Contd.

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Continued

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

Approved by the Inland Revenue

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

Net asset values supplied by ... See ... in London Share Service

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

[illegible]

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

SUPPORT SERVICES

PROPERTY - Continued

SUPPORT SERVICES - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid prices are shown in pence unless otherwise indicated. For FTSE 100 index constituents and securities quoted on the Stock Exchange Electronic Trading System (SETS), highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Trading volumes are end of day volumes. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid prices, are gross, adjusted for a dividend tax credit of 20 per cent except where payment is due after 6/4/99 when no tax credit will be applied, and allow for the value of declared distributions and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discount (Dis) or premium (Pm) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(i) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- Rule 4.2(a) Irish incorporated non-listed companies
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yields are based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 60p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0906 843 0005

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Bulls emerge as winners after day-long struggle

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A sense of anti-climax pervaded much of the blue chip end of London's equity market yesterday as many stock prices slipped away during a relatively subdued post-Budget trading session.

After a last gasp tussle between the market's optimists and pessimists, the FTSE 100 was left with a hard-won 3.8 gain at 6,241.5.

That was a far cry from its early showing which saw the index drop just short of 70 points to well below the 6,200 mark.

But the weakness that affected blue chips for much of the day did not envelop the whole market. The mid and smallcap indices showed a marked reluctance to give back any of their recent strong gains.

The FTSE 250 extended its winning sequence to 13 straight sessions, during which time the index – up 33.3 to 5,409.0 yesterday – has risen more than 250 points or 4.9 per cent.

Similarly, the FTSE SmallCap index has enjoyed a strong run, rising for five consecutive sessions and 12 out of the past 13 trading days.

Up 11.2 at 2,334.0 yesterday, the SmallCap has advanced 87.64, or 3.9 per cent, during those 13 days.

Dealers were surprised at the extent of the market's early setback which they said was more a reflection of Wall Street's poor showing overnight – the Dow Jones Industrial Average finished 33 points lower – than disillusionment with Gordon Brown's third Budget.

On the contrary, the Budget proposals drew a mostly enthusiastic response from the press and from many strategists.

In its Budget review, the strategy team at BT Alex Brown described the overall proposals as "good for equities, bad for bonds", saying: "The equity market is likely to take heart from Mr Brown's Budget. In the very short run, the FTSE 100 may even hit new highs." But it warned that "the upside is likely to be constrained by a backing-up in gilt yields".

Dresdner Kleinwort Benson's team said: "Market earnings should be boosted by around 1.5 per cent in 1999/2000. A sense of relief should be felt by all but UK industrials."

The market's late burst of strength owed much to a strong drive by Reuters, whose shares became Footsie's best performers following a strategic review outlined to analysts and institutions in London.

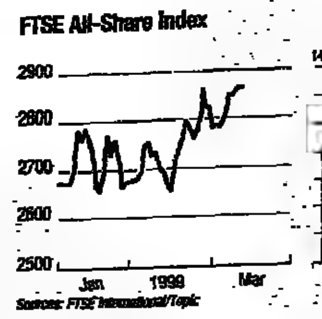
Earlier in the day, bank shares had provided a prop for the FTSE 100 as speculators chased the perceived takeover targets – Abbey National and Alliance & Leicester – after the surprise hostile bids for French banks Paribas and SocGen, launched by BNP.

Meanwhile, the lack of duty increases on alcohol helped the drinks stocks surge ahead. Tobacco shares were buffeted by the duty increases on cigarettes, and Gallaher was additionally bruised by its relegation from the FTSE 100 to the 250 index.

Other FTSE 100 casualties included Safeway, Williams and Tomkins, while new entrants were Energis, South African Breweries, Misys and EMAP.

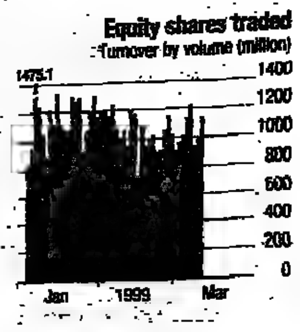
Turnover in equities picked up during the afternoon, finishing at 1.15bn shares.

FTSE All-Share Index



Sources: FTSE International/Topic

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	6241.5	+3.8
FTSE 250	5409.0	+33.3
FTSE 350	2963.9	+4.4
FTSE All-Share	2865.81	+4.68
FTSE All-Share yield	2.67	2.67

FT 30	3806.1	+30.5
FTSE Non-Fins p/e	24.90	24.89
FTSE100 Fut. Mar	6282.0	+41.5
10 yr Gilt yield	4.70	4.63
Long gilt/equity yld ratio	1.61	1.61

Best performing sectors

1 Building Matls & Merchs +2.2
2 Banks: Retail +1.7
3 Support Services +1.4
4 Leisure & Hotels +1.4
5 Retailers:General +1.3

Worst performing sectors

1 Tobacco -3.2
2 Oil Exploration & Prod -2.7
3 Diversified Industries -2.1
4 Extractive Industries -1.5
5 Electricity -1.4

Reuters soars to new high

COMPANIES REPORT

By Peter John and Joel Kibazo

Reuters Group hit an all-time high yesterday in belated response to its strategy meeting on Budget day.

The financial information group had told analysts that it intended to boost the margins in its information business from 10 to 15 per cent.

Tuesday's presentation offered details as to how the restructuring of the group over the past year will lead to efficiency savings and higher margins but had little effect on the day as the market focused on Gordon Brown's comments.

Also, dealers said there had been some buying ahead of the meeting and that took a while to be absorbed.

However, as the flow of available shares dried up, a couple of broker recommendations prompted a big technical squeeze which was exacerbated when the Dow Jones Industrial Average started trading and buyers emerged in New York. US investors hear the Reuters presentation next Tuesday.

The shares shot forward to 973p before closing more than 7 per cent or 65 up on the day at 967½p.

Telecoms group Energis cruised into the FTSE 100 after the FTSE equity indices committee held its quarterly meeting yesterday to decide changes to the index constituents.

The stock had been expected to enter the premier listings after National Grid, 2 off at 434¾p, reduced its holding in the company from just over 74 per cent to 49.5 per cent earlier this year.

Yesterday the shares jumped 42½ to 597½p. Sentiment was enhanced by a decision from industry regulator Oftel to leave the present arrangements over shares in revenue from telephone calls to the internet unchanged.

The move was an attempt to resolve a dispute over charges between BT, 12 lighter at £10.61, and other telephone companies.

Chris Godsmark at Henderson Crosthwaite said the decision was less negative for companies such as Energis than many had feared. "Oftel has deferred the big decision on how much BT should retain of the price of internet calls untill 2001. Clearly, this is better news for Energis and other internet carriers," said the broker.

He now expects internet revenue for Energis to be higher than initially expected in the year starting April 1999.

There was little change in South African Breweries, the drinks group that is another of the new Footsie constituents. The shares closed at 507p.

Buyers of software group Misys that helped send the shares 29 ahead to 674p will be cheered by the news of its return to the FTSE 100, as will followers of publishing group EMAP, unchanged at £14.15.

The four companies ejected from the FTSE 100 are tobacco group Gallaher which fell 22 to 392¼p; food retailer Safeway, a busy trade yesterday with turnover of 13m as the shares gained 7 to 248½; Tomkins which rose 7¼ to 213½p; and Williams whose shares added 5¾ to 370¼p.

Shares in defence and engineering group British Aerospace hardened 5 to 421p after Merrill Lynch turned more positive on the stock.

The US investment bank moved its recommendation from "negative" to "neutral" having turned negative in December.

The engineering team at Merrill now believe the 30 per cent slide since it shifted its recommendation was now discounting the recent fears surrounding the oil price and consequently its oil-for-arms deal with Saudi Arabia.

The decline was also reflecting the sizeable amount of BAe stock that will come onto the market as part-payment for Marconi Electronics which BAe is acquiring from GEC. Merrill suggested a some-of-the-parts valuation for BAE of 426p.

Assured performance

Countrywide Assurance surged to second place in the FTSE 250 performance table, finishing the session a net 11 or 8 per cent higher at 137p in the wake of record profits from the life assurance and estate agents group.

The group's profits came in a top-of-the-range seven per cent higher. The market was additonally boosted, specialists said, by a highly encouraging trading statement issued with the numbers, interpreted by some that the housing market is experiencing something of a mini-boom.

"Estate agents lead the building societies/banks by at least two months as an indicator of sales; watch out for a bullish report from the Halifax in the short term," said one observer.

The recent strong run by Pearson came to a halt as the media group, which owns the Financial Times, failed to inspire the market with its full-year figures.

The shares fell 85 to £13.37, the worst performance in the FTSE 100 index, having hit a peak of £14.52 two days earlier.

Results were in line with the range of forecasts but Anthony de Larrinaga at broker West LB Panmure, which is bearish on the stock, said he felt "growth was driven by cost savings rather than being organic".

Information technology group Synstar established a new low as it fell 3 to 126p, leaving it 24 per cent below the level at which it was placed by Morgan Stanley less than a fortnight ago.

Merrill Lynch said: "Synstar has much to prove. Although it operates in the fast-growing IT sector, its sales growth has yet to reflect this."

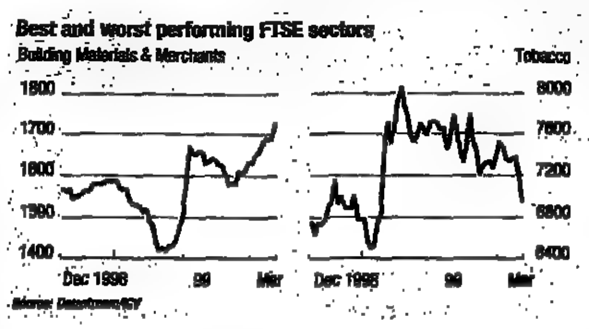
Synstar was placed at the same rating at which West LB Panmure priced technology consultancy Axon, which starts trading today and was eight times over-subscribed.

Panmure has placed 18.7m shares with institutional clients at 175p a share and the stock is expected to trade at a premium of 30p-40p when it makes its market debut.

Employment and training group Corporate Services, which has fallen sharply since its profit warning at the start of the week, finally steadied. There was a rumour that Vedior, the Dutch employment group, was eyeing the company. Corporate shares improved 2½ to 91½p although it dropped out of the FTSE 250 index.

Property group Peel Holdings jumped 134½ or nearly 27 per cent to 633½p, the best performer in the FTSE 250, after it said it is considering taking the company private.

Best and worst performing FTSE sectors



Source: Datastream/ICV

FT 30 INDEX

	Mar 10	Mar 9	Mar 8	Mar 5	Mar 4	Yr ago	*High	*Low
FT 30	3806.1	3775.5	3770.9	3757.6	3742.3	3695.8	4004.9	2790.8
Ord. div. yield	2.72	2.74	2.75	2.78	2.78	2.98	4.22	2.72
P/E ratio net	23.31	23.13	23.09	23.02	22.82	23.88	25.41	15.80
P/E ratio nil	23.25	23.06	23.02	22.96	22.76	N/A	25.19	15.71

FT 30 since compilation: high 4004.9 7/10/98; low 49.4 6/26/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3775.5	3757.6	3764.2	3771.9	3771.2	3789.0	3789.5	3794.4	3807.7	3744.1

 *For 1998/99.

STOCK MARKET TRADING DATA

	Mar 10	Mar 9	Mar 8	Mar 5	Mar 4	Yr ago
SEAQ bargains	84,331	80,075	86,250	88,415	77,808	n/a
Equity turnover (£m)†	-	3793.9	3994.1	4452.7	3693.4	n/a
Equity bargains†	-	67,908	73,709	69,575	61,348	n/a
Shares traded (m)†	-	972.4	943.0	1011.6	928.7	n/a
Total market bargains‡	-	81,637	86,122	85,917	76,048	-
Total turnover (£m)‡	-	4662.4	4957.2	5875.6	4904.7	-
Total shrs traded (m)‡	1140.8*	1193.3	1133.0	1263.9	1172.8	-
Tradepoint turnover (£m)	30.4	25.9	25.0	29.1	22.4	37.8
Tradepoint shrs traded(m)	11.5	10.4	10.6	12.4	10.4	7.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	754	Total Highs	92	Total contracts	27,615
Total Falls	708	Total Lows	47	Calls	13,784
Same	1,382			Puts	13,831

Mar 10 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6250.0	6248.0	+5.0	6290.0	6167.0	28841	158060
Jun	6265.0	6289.0	+5.0	6322.0	6211.0	12453	48706
Sep		6337.0	+8.0			0	3148

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar		5401.0	+38.0			0	2299
Jun		5410.0	+38.0			0	7357

FTSE 100 INDEX OPTION (LIFFE) (*6241) £10 per full index point Mar 10

	6050 C	6050 P	6100 C	6100 P	6150 C	6150 P	6200 C	6200 P	6250 C	6250 P	6300 C	6300 P	6350 C	6350 P	6400 C	6400 P
Mar	234	31	189½	40	152	54½	116	70	88	91½	66	117	46½	147	31	183½
Apr	330½	115½	293	129	259½	147	229½	168	200½	189	171	210½	148½	237½	127	265½
May	408½	187½	378½	207½	345½	227½	315	247½	284½	268½	254	285½	225½	307½	199	334½
Jun	472	242½	442½	261	412½	280	382½	299	352½	318½	322½	337½	292½	358	268	384½
Dec†			777½	505			713½	539			650½	578			588½	614

Calls 2,807 Puts 471

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Mar 10

	6075		6125		6175		6225		6275		6325		6375		6425	
Mar	288	33½	169½	47	133	60	101	78	78	102	53	130	35	162	23	199½
Apr	303½	119½	269½	135½	237½	153	209½	175	186	201	167	221½	131	245½	108½	272½
May	394	197	369½	213½	328½	231½	298	251	300	272	241½	294½	208½	316½	181	344
Jun			428	257½			368	304			307½	344			287	392
Sept			581½	356½			536	427			474	483			416½	506

Calls 2,953 Puts 8,644 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998/9 High	1998/9 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	15.0	100	90	Close Bros Dev VCT	100		-	-	-	-
-	F.P.	80.3	103½	99½	Enhanced Zero Tst	100½		-	-	-	-
-	F.P.	38.5	8	7	Garden Properties	7½		-	-	-	-
-	F.P.	47.8	100½	94½	Jupiter Enhanced	99¼	-½	-	-	-	-
-	F.P.	47.6	110	103¼	Do Zero Div Pfd	107¼	-¼	-	-	-	-
-	F.P.	-	380	255	Lasmer Warrants	277½		-	-	-	-
-	F.P.	5.90	110½	107½	†NBA Quantum	110		W-	-	-	11.2
-	F.P.	11.9	140	65½	†Sports Internet	135½	+20½	-	-	-	-
-	F.P.	-	142½	126	Synstar	126	-3	-	-	-	31.0

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1998/99 High	1998/99 Low	Stock	Closing price p	+or-
10	Nil	18/3	1¼pm	1pm	Brancote	1pm	-¼
15	Nil	25/3	6pm	2pm	Oxford Biomedica	4pm	-½

pm premium.

FTSE GOLD MINES INDEX

	Mar 9	% chg on day	Mar 8	Year ago	Gross div yield %	Total return	52 week High	52 week Low
Gold Mines Index (28)	953.81	1.3	941.25	1079.64	1.93	991.16	1351.57	791.56
Regional Indices								
Africa (8)	1079.19	3.1	1047.08	1034.24	3.85	1088.88	1455.04	765.69
Australasia (9)	1127.27	2.0	1104.90	1294.89	2.71	1140.60	1603.58	815.93
Americas (11)	845.05	0.3	882.39	1080.98	0.82	858.08	1317.41	647.68

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stlg Mar 10	Day's chge%	Euro Index	£ Stlg Mar 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6241.5	+0.1	7218.1	6237.7	5829.8	2.55	2.28	1.92	25.59	36.62	2779.96
FTSE 250	5409.0	+0.6	6255.3	5375.7	5316.8	3.06	2.73	2.06	19.70	20.03	2362.18
FTSE 250 ex Inv Tr	5447.8	+0.7	6300.2	5410.8	5351.8	3.19	2.84	2.14	18.31	19.81	2389.40
FTSE 350	2963.9	+0.1	3427.7	2959.5	2792.1	2.63	2.36	1.94	24.46	16.40	2697.51
FTSE 350 ex Inv Tr	2971.4	+0.2	3436.3	2966.9	2798.8	2.64	2.36	1.95	24.22	16.53	1387.23
FTSE 350 Higher Yield	2797.9	+0.3	3235.7	2789.6	2769.0	3.59	3.17	1.80	19.38	19.09	2189.40
FTSE 350 Lower Yield	3136.3	—	3627.0	3136.5	2832.2	1.67	1.52	2.26	33.21	13.27	2306.43
FTSE SmallCap	2334.00	+0.5	2699.19	2322.79	2523.37	3.46	2.92	2.02	17.89	9.21	2069.93
FTSE SmallCap ex Inv Tr	2301.10	+0.5	2661.18	2289.83	2513.61	3.67	3.10	2.14	15.95	8.72	2053.64
FTSE All-Share	2865.81	+0.2	3314.21	2861.13	2719.59	2.67	2.37	1.95	24.04	15.64	2647.08
FTSE All-Share ex Inv Tr	2877.25	+0.2	3327.44	2872.52	2726.55	2.68	2.39	1.96	23.71	15.80	1367.50
FTSE Fledgling	1270.72	+0.5	1469.55	1280.54	1371.41	3.87	3.20	1.42	22.75	4.21	1435.64
FTSE Fledgling ex Inv Tr	1280.60	+0.3	1481.20	1276.99	1396.76	4.42	3.66	1.47	19.19	4.47	1455.56
FTSE All-Small	1321.65	+0.5	1528.67	1315.91	1429.54	3.56	2.98	1.88	18.73	5.04	1498.31
FTSE All-Small ex Inv Tr	1328.36	+0.5	1536.20	1322.34	1450.45	3.82	3.21	1.98	16.51	4.95	1514.96
FTSE AIM	841.7	+0.2	973.4	840.3	1017.5	1.31	1.09	30.00†	0.12	0.09	783.69

FTSE Actuaries Industry Sectors

	£ Stlg Mar 10	Day's chge%	Euro Index	£ Stlg Mar 9	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj ytd	Total Return
10 RESOURCES(18)	4245.76	-0.6	4910.10	4270.61	4548.70	3.33	2.99	1.11	33.79	26.96	1994.43
12 Extractive Industries(6)	3107.50	-1.5	3593.72	3155.66	3320.52	4.10	3.83	2.01	15.15	69.75	1025.23
15 Oil, Integrated(3)	4927.48	-0.4	5698.46	4947.77	4994.19	3.24	2.90	1.03	37.52	23.15	2376.05
16 Oil Exploration & Prod(9)	1473.42	-2.7	1703.97	1514.78	3300.80	3.77	3.29	0.10	80.00†	7.97	927.57
20 GEN INDUSTRIALS(188)	1964.47	+0.8	2271.84	1948.10	2164.31	3.54	3.20	2.35	15.04	11.18	1182.86
21 Construction(37)	1428.43	+0.6	1651.93	1419.52	1571.54	3.46	2.94	3.24	11.16	8.10	1301.80
22 Building Matls & Merchs(33)	1726.27	+2.2	1996.37	1689.46	1882.21	4.30	3.84	2.21	13.16	0.42	983.18
23 Chemicals(20)	1938.64	+0.7	2241.97	1925.88	2811.55	4.98	4.73	1.59	15.83	35.79	1027.11
24 Diversified Industrials(4)	988.96	-2.1	1143.70	1010.01	1474.31	6.63	5.84	1.08	17.51	5.26	630.83
25 Electronic & Elect Equip(25)	3029.12	+0.6	3503.07	3012.12	2330.13	2.46	2.13	2.05	24.78	16.02	1707.54
26 Engineering(53)	2466.33	+0.5	2852.23	2454.20	2914.31	3.40	3.07	2.38	15.45	11.14	1631.33
27 Engineering, Vehicles(10)	4482.04	+1.3	5183.33	4424.79	3850.55	2.08	1.91	4.40	13.75	3.72	2499.66
28 Paper, Pckg & Printing(17)	1700.86	+0.5	1966.99	1692.12	2210.20	6.28	5.89	2.26	8.79	25.92	797.75
30 CONSUMER GOODS(81)	6065.03	-0.7	7014.00	6109.77	5816.91	2.25	2.12	1.88	29.44	28.99	2437.52
32 Alcoholic Beverages(5)	3910.43	+0.2	4522.28	3900.74	3888.14	3.33	3.11	2.02	18.58	0.34	1567.76
33 Food Producers(26)	3469.21	-0.2	4012.03	3476.41	3909.91	2.66	2.42	2.14	21.99	16.92	1708.84
34 Household Goods & Texts(13)	2172.47	-0.4	2512.38	2180.37	3301.72	4.67	4.35	1.91	14.02	5.05	934.96
36 Health Care(14)	2508.57	-0.5	2901.07	2522.22	2322.16	2.13	1.91	1.98	29.57	2.36	1621.69
37 Pharmaceuticals(20)	10947.68	-0.9	12660.62	11042.71	8943.57	1.61	1.56	1.81	42.85	71.49	3971.03
38 Tobacco(3)	6965.02	-3.2	8054.81	7194.51	5221.19	4.59	4.30	1.46	18.65	0.00	1984.60
40 SERVICES(261)	3946.85	+0.1	4564.39	3944.40	3232.90	2.15	1.82	2.10	27.64	7.58	2200.25
41 Distributors(25)	1933.53	-0.3	2236.06	1939.61	2751.10	4.72	4.09	2.06	12.88	3.71	777.84
42 Leisure & Hotels(31)	3951.79	+1.4	4570.12	3897.39	3687.97	2.23	2.10	3.03	18.52	24.27	2274.50
43 Media(45)	5449.85	—	6302.57	5450.58	4413.03	1.83	1.65	2.09	32.70	7.72	2086.13
44 Retailers, Food(13)	2429.58	-0.3	2809.73	2436.96	2860.41	3.75	3.02	2.16	15.41	4.47	1676.35
45 Retailers, General(41)	2390.06	+1.3	2764.03	2358.75	2389.04	3.13	2.52	2.07	19.27	5.99	1482.88
46 Telecommunications(7)	6245.86	-1.2	7223.23	6322.76	3481.79	1.44	1.18	1.64	52.93	4.51	3081.15
47 Breweries, Pubs & Rest.(22)	3855.85	+1.2	4458.93	3808.72	4035.90	3.26	2.65	2.20	17.41	16.56	2010.07
48 Support Services(58)	5265.93	+1.4	6089.87	5192.25	4330.80	1.17	1.06	3.85	37.41	3.43	3492.55
49 Transport(29)	3592.89	+0.1	4154.82	3589.91	3341.13	2.89	2.48	1.98	21.82	12.87	1628.02
60 UTILITIES(20)	3823.88	-0.8	4422.19	3853.24	3646.65	4.06	3.52	1.84	16.73	11.51	1865.86
62 Electricity(7)	4238.83	-1.4	4902.07	4298.44	4079.72	4.55	3.76	1.31	21.04	9.64	2537.75
64 Gas Distribution(2)	3156.06	-0.4	3649.87	3167.66	2768.48	2.00	1.78	2.71	23.11	0.00	1839.67
68 Water(11)	3136.43	—	3627.18	3138.36	3200.43	5.35	4.93	2.35	9.94	24.10	1992.03
69 NON-FINANCIALS(589)	2896.98	-0.2	3350.28	2902.00	2688.17	2.64	2.34	1.90	24.90	10.86	2399.84
70 FINANCIALS(120)	5643.88	+1.2	6526.95	5578.77	5890.36	2.82	2.54	2.13	20.60	59.81	2872.02
71 Banks, Retail(12)	8759.52	+1.7	10130.09	8609.00	8287.28	2.80	2.50	2.23	20.04	125.51	3152.60
73 Insurance(21)	2367.88	+0.3	2738.38	2361.82	2710.82	2.90	2.76	2.06	20.86	16.23	1999.07
74 Life Assurance(8)	6955.68	-0.8	8044.01	7013.86	7343.13	2.72	2.58	1.96	23.40	11.74	3140.80
77 Other Financial(31)	4169.61	+1.2	4822.01	4121.82	4539.31	2.57	2.23	2.10	23.15	9.27	2581.76
79 Property(48)	1921.29	+0.8	2221.91	1905.98	2368.21	3.30	2.86	1.68	22.58	6.57	1285.02
80 INVESTMENT TRUSTS(117)	3825.82	+0.1	4424.43	3821.42	3820.17	2.21	1.85	1.16	49.06	16.35	1413.47
89 FTSE All-Share(826)	2865.81	+0.2	3314.21	2861.13	2719.59	2.67	2.37	1.95	24.04	15.64	2647.08
105 FTSE All-Share ex Inv Tr(709)	2877.25	+0.2	3327.44	2872.52	2726.55	2.68	2.39	1.96	23.71	15.80	1367.50
Information Technology	1855.63	+1.2	2145.98	1833.73	1384.54	0.48	0.43	4.83	52.48	1.44	1866.92

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6232.7	6186.6	6192.5	6203.2	6197.9	6223.2	6218.4	6220.5	6242.1	6168.6
FTSE 250	5383.6	5383.0	5382.4	5387.2	5394.9	5398.2	5400.0	5404.3	5409.1	5381.4
FTSE 350	2958.2	2939.7	2942.0	2948.7	2945.2	2955.5	2953.9	2965.1	2963.9	2932.9
FTSE SmallCap	2326.43	2327.70	2328.73	2328.95	2329.02	2330.37	2331.98	2333.64	2334.00	2324.87
FTSE All-Share	2860.13	2843.13	2845.32	2849.66	2848.32	2857.86	2856.47	2857.67	2865.81	2836.85

Time of FTSE 100 Day's high: 14:25:30 Day's low: 9:38:45 FTSE 100 1998/99 High: 6307.8 (24/02/99) Low: 4648.7 (05/10/98)
Time of FTSE All-Share Day's high: 16:30:00 Day's low: 9:40:00 FTSE All-Share 1998/99 High: 2885.20 (20/07/98) Low: 2166.07 (05/10/98)

Further information is available on http://www.ftse.com.
 † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Amendment to Indices: 9/3/99: Due to the omission of Rio Tintos ex-dividend the total return indices and xd adjustment have been amended (FTSE 100 & 12). Deletion: York Waterworks (FTSE Fledgling).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	[illegible]	617½	-2½
AMVESCAP	[illegible]	919	+17
ASDA Group	11,897	147½	+1
Abbey National	4,467	[illegible]	[illegible]
Alliance & Leicester	[illegible]	[illegible]	[illegible]
Allied Domecq	[illegible]	[illegible]	[illegible]
Allied Zurich	[illegible]	[illegible]	[illegible]
Anglian Water	[illegible]	[illegible]	[illegible]
Assoc. Brit. Foods	[illegible]	[illegible]	[illegible]
BAA	[illegible]	[illegible]	[illegible]
BOC	[illegible]	[illegible]	[illegible]
BP Amoco	[illegible]	[illegible]	[illegible]
BSkyB	[illegible]	[illegible]	[illegible]
BT	[illegible]	[illegible]	[illegible]
BTR Siebe	[illegible]	[illegible]	[illegible]
Bank of Scotland	[illegible]	[illegible]	[illegible]
Barclays	[illegible]	[illegible]	[illegible]
Bass	[illegible]	[illegible]	[illegible]
Billiton	[illegible]	[illegible]	[illegible]
Blue Circle	[illegible]	[illegible]	[illegible]
Boots	[illegible]	[illegible]	[illegible]
Britannic Assurance	[illegible]	[illegible]	[illegible]
Brit. Aerospace	[illegible]	[illegible]	[illegible]
British Airways	[illegible]	[illegible]	[illegible]
Brit. Amer. Tobacco	[illegible]	[illegible]	[illegible]
British Energy	[illegible]	[illegible]	[illegible]
British Land	[illegible]	[illegible]	[illegible]
CGU	[illegible]	[illegible]	[illegible]
CMG	[illegible]	[illegible]	[illegible]
COLT Telecom	[illegible]	[illegible]	[illegible]
Cable & Wireless	[illegible]	[illegible]	[illegible]
Cadbury Schweppes	[illegible]	[illegible]	[illegible]
Carlton Comms	[illegible]	[illegible]	[illegible]
Centrica	[illegible]	[illegible]	[illegible]
Compass	[illegible]	[illegible]	[illegible]
Daily Mail & Gen	[illegible]	[illegible]	[illegible]
Diageo	[illegible]	[illegible]	[illegible]
Dixons	[illegible]	[illegible]	[illegible]
EMI	[illegible]	[illegible]	[illegible]
Foreign & Col	[illegible]	[illegible]	[illegible]
General Elec	[illegible]	[illegible]	[illegible]
Gallaher	[illegible]	[illegible]	[illegible]
Glaxo Wellcome	[illegible]	[illegible]	[illegible]
Granada	[illegible]	[illegible]	[illegible]
GUS	[illegible]	[illegible]	[illegible]
GRE	[illegible]	[illegible]	[illegible]
GKN	[illegible]	[illegible]	[illegible]
HSBC (75p shs)	[illegible]	[illegible]	[illegible]
HSBC (HK$10)	[illegible]	[illegible]	[illegible]
Halifax	[illegible]	[illegible]	[illegible]
Hanson	[illegible]	[illegible]	[illegible]
Hays	[illegible]	[illegible]	[illegible]
ICI	[illegible]	[illegible]	[illegible]
Imperial Tobacco	[illegible]	[illegible]	[illegible]
Kingfisher	[illegible]	[illegible]	[illegible]
Ladbroke	[illegible]	[illegible]	[illegible]
Land Securities	[illegible]	[illegible]	[illegible]
Legal & General	[illegible]	[illegible]	[illegible]
Lloyds TSB	[illegible]	[illegible]	[illegible]
LucasVarity	[illegible]	[illegible]	[illegible]
Marks & Spencer	[illegible]	[illegible]	[illegible]
NatWest Bank	[illegible]	[illegible]	[illegible]
National Grid	[illegible]	[illegible]	[illegible]
National Power	[illegible]	[illegible]	[illegible]
Northern Rock	[illegible]	[illegible]	[illegible]
Norwich Union	[illegible]	[illegible]	[illegible]
Orange	[illegible]	[illegible]	[illegible]
Pearson	[illegible]	[illegible]	[illegible]
P & O	[illegible]	[illegible]	[illegible]
PowerGen	[illegible]	[illegible]	[illegible]
Prudential	[illegible]	[illegible]	[illegible]
Railtrack	[illegible]	[illegible]	[illegible]
Reckitt & Colman	[illegible]	[illegible]	[illegible]
Reed Intl.	[illegible]	[illegible]	[illegible]
Rentokil Initial	[illegible]	[illegible]	[illegible]
Reuters	[illegible]	[illegible]	[illegible]
Rio Tinto	[illegible]	[illegible]	[illegible]
Rolls Royce	[illegible]	[illegible]	[illegible]
Royal & Sun All	[illegible]	[illegible]	[illegible]
Royal Bank Scot	[illegible]	[illegible]	[illegible]
Safeway	[illegible]	[illegible]	[illegible]
Sainsbury	[illegible]	[illegible]	[illegible]
Schroders	[illegible]	[illegible]	[illegible]
Schroders N/V	[illegible]	[illegible]	[illegible]
Scottish & Newcastle	[illegible]	[illegible]	[illegible]
Scot & Sthn Energy	[illegible]	[illegible]	[illegible]
Scottish Power	[illegible]	[illegible]	[illegible]
Securicor	[illegible]	[illegible]	[illegible]
Severn Trent	[illegible]	[illegible]	[illegible]
Shell Transport	[illegible]	[illegible]	[illegible]
SmithKline Beecham	[illegible]	[illegible]	[illegible]
Smiths Inds	[illegible]	[illegible]	[illegible]
Stagecoach	[illegible]	[illegible]	[illegible]
Standard Chartered	[illegible]	[illegible]	[illegible]
Sun Life & Prov	[illegible]	[illegible]	[illegible]
TeleWest Comms	[illegible]	[illegible]	[illegible]
Tesco	[illegible]	[illegible]	[illegible]
Thames Water	[illegible]	[illegible]	[illegible]
Tomkins	[illegible]	[illegible]	[illegible]
Unilever	[illegible]	[illegible]	[illegible]
Utd. News & Media	[illegible]	[illegible]	[illegible]
United Utilities	[illegible]	[illegible]	[illegible]
Vodafone	[illegible]	[illegible]	[illegible]
WPP	[illegible]	[illegible]	[illegible]
Whitbread	[illegible]	[illegible]	[illegible]
Williams	[illegible]	[illegible]	[illegible]
Woolwich	[illegible]	[illegible]	[illegible]
Zeneca	[illegible]	[illegible]	[illegible]

Based on trading volume for the FTSE 100 index constituents and ... † Indicates a FTSE 100 index constituent ... rounded. Source ...

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Mar 10) 1 € = 13.76030 Sch

BELGIUM/LUX (Mar 10) 1 € = 40.33990 Frs.

FINLAND (Mar 10) 1 € = 5.94573 Mka

FRANCE (Mar 10) 1 € = 6.55957 Frs.

GERMANY (Mar 10) 1 € = 1.95583 Dm.

IRELAND

ITALY (Mar 10) 1 € = 1936.27 Lire

NETHERLANDS (Mar 10) 1 € = 2.20371 Fls.

PORTUGAL

SPAIN (Mar 10) 1 € = 166.386 Pts.

EUROPE (NON-EMU)

CZECH REP (Mar 10 / Korunas)

DENMARK (Mar 10 / Kr)

GREECE

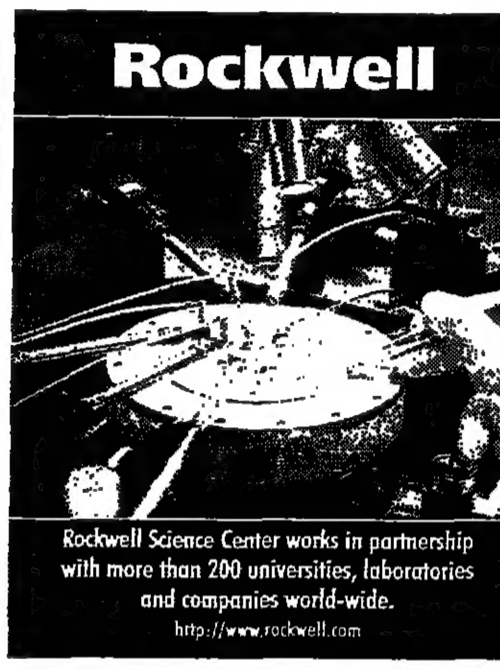
NORWAY

POLAND (Mar 10 / Zloty)

SWEDEN (Mar 10 / Kronor)

SWITZERLAND (Mar 10 / Frs.)

TURKEY



PACIFIC

JAPAN (Mar 10 / Yen)

HONG KONG (Mar 10 / H.K.$)

INDONESIA (Mar 10 / Rupiah)

MALAYSIA (Mar 10 / MYR)

NEW ZEALAND (Mar 10 / NZ $)

SINGAPORE (Mar 10 / S$)

AUSTRALIA (Mar 10 / Aus$)

SOUTH KOREA (Mar 10 / Won)

TAIWAN (Mar 10 / TW $)

THAILAND (Mar 10 / Baht)

AFRICA

SOUTH AFRICA (Mar 10 / Rand)

AMERICAS

CANADA

TORONTO (Mar 10 / Can $) 3:30 pm

MONTREAL (Mar 10 / Can $) 3:30 pm

MEXICO (Mar 10 / Peso) 12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MARCH 9 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div Yield	MONDAY MARCH 8 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	212.58	0.6	195.18	163.09	224.83	222.08	-0.3	3.40	211.22	194.78	162.78	223.49	222.81	219.96	163.86	208.46
Austria (21)	182.91	0.4	167.94	140.33	170.70	170.70	0.4	1.97	182.16	167.99	140.39	170.08	170.08	253.73	165.27	205.63
Belgium (22)	374.54	-0.4	343.89	287.35	342.24	342.24	-0.4	1.97	376.07	346.79	289.83	343.78	343.78	446.95	286.70	286.70
Brazil (29)	112.55	1.6	103.34	86.35	119.04	394.15	-1.8	5.89	110.73	102.11	85.34	117.17	401.53	269.34	89.32	248.73
Canada (113)	203.49	-0.5	186.65	156.11	215.22	223.42	-0.3	1.78	204.44	188.53	157.56	216.32	224.17	248.78	159.94	233.09
Denmark (34)	417.18	-1.9	383.04	320.05	441.23	387.34	-1.9	1.81	425.19	392.10	327.70	449.91	395.01	537.33	417.18	461.69
Finland (29)	643.92	1.1	591.22	494.01	738.00	738.00	1.1	1.53	636.69	587.13	490.70	730.03	730.03	661.25	338.49	351.30
France (74)	316.70	-0.2	290.78	242.97	299.31	299.31	-0.3	2.05	317.41	292.70	244.63	300.11	300.11	354.45	253.86	273.51
Germany (55)	245.22	-0.6	225.15	188.13	229.02	229.02	-0.7	1.69	246.77	227.56	190.19	230.57	230.57	325.61	226.35	254.91
Greece (36)	411.92	3.5	378.21	316.02	435.67	871.93	3.3	0.93	398.13	367.14	306.84	421.27	843.88	429.65	211.47	–
Hong Kong, China (66)	304.54	2.4	279.62	233.64	322.10	302.96	2.4	3.96	297.41	274.26	229.22	314.70	295.87	362.52	196.64	344.92
Indonesia (24)	43.54	-3.5	39.98	33.40	46.05	240.38	-2.7	1.21	45.13	41.62	34.78	47.76	247.11	64.52	19.04	42.59
Ireland (14)	530.48	-1.0	487.07	406.93	540.71	540.71	-1.0	1.85	535.74	494.04	412.89	546.30	546.30	605.85	396.15	483.49
Italy (53)	169.84	1.6	155.94	130.30	225.58	225.58	1.6	1.44	167.08	154.07	128.77	222.01	222.01	192.64	128.68	144.30
Japan (445)	100.09	2.0	91.90	76.79	105.86	76.79	1.5	0.96	98.15	90.51	75.64	103.85	75.64	103.99	76.83	103.99
Mexico (29)	1349.81	3.2	1238.42	1034.80	1426.59	14424.18	2.5	1.79	1307.28	1205.53	1007.53	1383.27	14074.47	1733.73	787.15	1586.53
Netherlands (26)	478.54	-0.5	439.37	357.13	442.09	442.09	-0.5	2.17	480.77	443.35	370.53	444.35	444.35	562.73	394.92	465.50
New Zealand (18)	64.01	-0.6	58.77	49.11	67.70	63.55	-1.1	4.43	64.42	59.41	49.65	68.17	64.27	77.84	45.68	74.45
Norway (37)	229.38	-0.5	210.59	175.96	242.59	244.54	-0.8	1.96	230.61	212.66	177.73	244.01	246.45	357.71	181.86	313.72
Philippines (22)	88.16	-1.7	80.94	67.63	93.24	171.55	-1.3	0.95	89.65	82.69	69.10	94.88	173.82	106.98	42.48	93.68
Portugal (18)	233.28	-2.1	214.18	178.97	294.02	294.02	-2.1	1.12	238.21	219.66	183.59	300.36	300.36	299.39	194.13	–
Singapore (40)	206.44	-0.6	189.55	158.38	218.35	164.60	-0.5	1.65	207.65	191.53	160.07	219.77	165.44	246.74	102.45	207.07
South Africa (34)	202.69	0.0	186.11	155.50	214.38	272.74	-0.5	3.46	202.62	186.85	156.16	214.39	274.59	346.20	151.55	275.66
Spain (30)	375.34	0.6	344.63	287.96	434.56	434.56	0.6	1.59	373.03	344.00	287.50	432.07	432.07	435.19	290.81	342.32
Sweden (45)	514.66	0.4	472.54	394.84	544.33	624.83	0.1	1.97	512.79	472.88	395.21	542.60	623.93	628.19	379.18	533.94
Switzerland (30)	397.53	0.9	364.99	304.98	420.45	361.03	1.0	1.18	393.87	363.21	303.55	416.76	357.46	441.65	307.73	382.65
Thailand (31)	21.02	-2.6	19.30	16.13	22.24	30.42	-2.4	2.96	21.60	19.91	16.64	22.85	31.15	33.84	8.15	30.41
United Kingdom (202)	392.01	0.9	359.92	300.74	414.61	359.92	0.5	2.66	388.38	358.15	299.33	410.96	358.15	401.84	307.96	371.20
USA (612)	528.04	-0.2	484.83	405.11	558.49	523.04	-0.2	1.25	529.17	487.98	407.83	559.93	529.17	529.17	390.12	429.41
Americas (783)	468.21	-0.2	429.90	359.21	495.21	337.56	-0.2	1.29	469.13	432.62	361.56	496.40	338.39	469.13	347.59	389.49
Europe (724)	350.40	0.4	321.72	268.82	370.60	334.74	0.2	2.05	348.92	321.78	268.91	369.20	333.92	386.24	282.63	328.02
Eurobloc (342)	98.35	0.0	90.30	75.46	99.42	99.42	-0.1	1.62	98.37	90.71	75.81	99.47	99.47	113.92	81.53	–
Nordic (143)	495.97	0.2	455.35	380.51	524.57	520.64	0.1	1.82	494.97	456.44	381.47	523.74	520.35	555.97	360.04	462.48
Pacific Basin (721)	108.21	1.8	99.35	83.02	114.45	85.27	1.3	1.45	106.31	98.04	81.93	112.49	84.10	113.74	82.88	113.41
Euro-Pacific (1445)	208.83	0.8	191.74	160.21	220.87	178.97	0.6	1.98	207.13	191.01	159.64	219.17	177.92	221.79	166.00	202.91
North America (725)	505.96	-0.2	464.55	388.17	535.13	506.97	-0.2	1.27	507.08	467.61	390.81	536.56	508.07	507.08	374.92	416.95
Europe Ex. UK (522)	318.95	0.2	292.85	244.70	337.35	312.67	0.1	1.72	318.46	293.67	245.44	336.97	312.30	366.32	260.93	296.93
Europe Ex. Eurobloc (382)	98.62	0.9	90.55	75.66	104.30	100.93	0.6	2.27	97.78	90.17	75.36	103.46	100.38	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	95.93	0.7	88.08	73.60	101.46	96.67	0.7	1.42	95.26	87.85	73.42	100.80	96.03	109.21	75.16	–
Pacific Ex. Japan (276)	185.77	1.1	170.57	142.52	196.49	189.57	0.6	3.46	183.82	169.52	141.67	194.51	188.40	216.04	128.26	201.14
World Ex. Eurobloc (1920)	107.96	0.3	99.13	82.83	114.19	107.66	0.2	1.51	107.66	99.28	82.97	113.91	107.50	108.05	83.09	–
World Ex. US (1650)	208.42	0.8	191.37	159.90	220.44	183.39	0.5	1.91	206.91	190.71	159.39	218.83	183.05	221.91	165.95	206.42
World Ex. UK (2060)	303.69	0.2	279.83	232.99	321.20	275.88	0.1	1.42	303.21	279.61	233.68	320.83	275.68	311.48	236.11	269.43
World Ex. Japan (1817)	416.32	0.0	382.25	319.40	440.33	412.19	0.0	1.62	416.11	383.72	320.70	440.30	412.32	427.99	320.58	385.06
The World Index (2262)	311.29	0.2	285.82	238.92	329.24	283.59	0.1	1.55	310.55	286.38	239.34	328.60	283.25	318.51	242.36	278.04

 CONSTITUENT CHANGES WITH EFFECT [illegible] Deletion: Tele-Communications Corp CL 'A' (USA). [illegible]

Emerging markets: IFC investable indices

Dollar terms

Mar 9 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	768.25	+0.2	-3.9
Brazil	237.02	+2.1	-13.8
Chile	483.14	-0.1	+7.1
Colombia[1]	374.38	-0.5	-14.8
Mexico	564.35	+3.2	+17.2
Peru[2]	136.24	-0.2	+1.4
Venezuela[3]	340.83	+0.3	-24.8
East Asia			
China[4]	23.33	+1.7	-10.9
India[7]	78.39	+1.3	+22.1
Indonesia[8]	20.72	-2.8	-14.4
Korea[5]	51.07	+0.3	-3.7
Malaysia	81.98	+2.4	-7.4
Pakistan[9]	102.76	+4.5	+8.7
Philippines	121.01	-1.7	-1.7
Sri Lanka[10]	65.74		-20.2
Taiwan, China[6]	117.61	+7.0	+1.6
Thailand	56.49	-2.9	-10.6
Europe			
Czech Rep	39.49	+0.5	-22.2
Greece	741.33	+3.5	+18.7
Hungary[11]	260.34	+2.7	-7.2
Poland[12]	493.03	+1.6	-5.8
Portugal	262.38	-2.1	-10.2
Russia	32.52	+3.0	+38.7
Slovakia	37.04	-1.1	-15.0
Turkey[14]	199.84	+3.2	+36.6
Mideast/Africa			
Egypt	73.97	-0.4	+14.8
Israel	115.82	-0.4	+13.3
Jordan	236.84	-0.8	+9.4
Morocco	164.80	-1.3	-1.7
S Africa[13]	142.36	+0.7	+13.7
Zimbabwe[15]	114.06		+8.3
Regions			
Composite	194.01	+1.1	+3.9
Latin America	422.82	+1.7	+0.7
Asia	105.39	+0.3	-1.5
EMEA	126.60	+1.1	+10.8
Europe	163.89	+1.9	+9.4
Eastn Europe	58.07	+2.2	-0.1
ME & Africa	60.27	+0.3	+12.4
Comp + Malay	195.41	+1.2	+3.1
Asia + Malay	105.15	+0.7	-2.7

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10)Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16)July 2 1993

Latest indices were unavailable for this edition

3:30 pm March 10

NEW YORK STOCK EXCHANGE PRICES

52 Week High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close	Chng
24 13/16	6 1/4	Zapata			3	527	8 7/8	8 5/8	8 7/8	+1/16
50	31	Zeneca	0.80	2.0	32	7738	41 1/4	40 1/2	40 7/8	-1/2
30 1/2	20 1/8	Zenith Nat	1.00	4.0	19	165	25 1/4	25 1/16	25 1/8	-1/8
8 7/8	5 1/4	Zemex Inc	0.67	11.2		156	6	5 13/16	6	+1/16
14 1/16	8 1/8	ZweigFd	1.08	10.3		723	10 1/2	10 3/8	10 1/2	+1/8
9 11/16	8 1/16	Zweig Total	0.84	10.1		748	8 3/4	8 5/8	8 5/8	

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Mar 9	Mar 8	Mar 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9893.75	9727.61	9736.08	9763.08 (5/3/99)	7539.07 (31/8/98)	9763.08 (5/3/99)	41.22 (8/7/32)
Home Bonds	104.31	104.44	104.36	107.17 (9/12/98)	104.13 (25/2/99)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3300.85	3288.40	3312.79	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	295.01	299.23	301.51	320.51 (8/10/98)	262.66 (9/1/98)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9858.65(9825.02) Low 9596.08 (9616.33) (Theoretical) Day's high 9796.93(9784.80) Low 9690.89 (9674.33) (Actual)

Standard and Poors	Mar 9	Mar 8	Mar 5	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1279.84	1282.73	1275.47	1282.73 (8/3/99)	927.69 (9/1/98)	1282.73 (8/3/99)	4.40 (1/6/32)
Industrials‡	1534.14	1540.57	1527.93	1581.85 (29/1/99)	1077.40 (9/1/98)	1581.85 (29/1/99)	3.52 (30/6/32)
Financial‡	141.35	140.04	140.50	147.89 (14/7/98)	95.80 (8/10/98)	147.89 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	602.93	604.10	603.14	611.08 (8/1/99)	477.20 (8/10/98)	611.86 (8/1/99)	4.64 (25/4/42)
Amex Comp	711.45	712.18	707.41	753.87 (22/4/98)	583.75 (8/10/98)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2392.84	2397.82	2337.11	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	399.20	400.06	398.01	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Mar 5	Feb 26	Feb 19	Year ago
Dow Jones Ind. Div. Yield	1.59	1.67	1.63	
	Mar 3	Feb 24	Feb 17	Year ago
S & P Ind. Div. yield	1.17	1.14	1.19	1.39
S & P Ind. P/E ratio	38.32	38.67	37.72	28.75

US DATA

MARKET ACTIVITY

Volume (million)	Mar 9	Mar 8	Mar 5
NYSE	803.740	714.630	834.950
Amex	23.701	22.942	28.038
NASDAQ	1037.85	978.865	864.844

NYSE	Mar 9	Mar 8	Mar 5
Issues Traded	3,559	3,537	3,498
Rises	1,345	1,359	2,065
Falls	1,663	1,595	918
Unchanged	551	583	559
New Highs	77	81	83
New Lows	98	55	40

NYSE TRADING ACTIVITY

Volume : 803,740,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Compaq	15,381,000	32¼	−1⅞
AmOnLne	11,986,500	89¾	−1
AT&T	11,448,900	85⅛	−2¼
Citgrp	9,524,200	62¾	+⅛
PhMorr	8,239,400	39¾	+½
RJR Nb	7,517,300	28⅛	−⅛
LucentTch	7,163,300	108⅞	+1¾
Mdtrnc	7,046,900	71¾	−2¼
Ametn	7,024,200	46¼	−1½
Disney	6,427,400	34⅛	−1⅛

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Comdisco	13¾	+1⅝	+13.8
SonyADR	94	+8⅛	+9.5
DSPCom	14½	+1⅛	+8.9
MercBc	49⅞	+3⅝	+7.8
Downs			
Omnicare	19	−3	−13.6
Diebold	25	−3¼	−10.9
Orb Scnce	23	−2⅜	−9.4
Appl Pw A	21⅛	−1⅞	−8.1

NASDAQ TRADING ACTIVITY

Volume :1,037,852,000

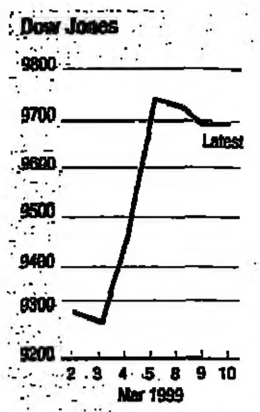
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellCmp	42,401,300	44⅛	−1⅛
AppMat	22,533,100	58⅜	−4⅝
Intel	22,438,600	115⅛	−4⅛
Micsft	22,327,300	161⅞	+2⅞
CiscoSys	16,281,200	105⅛	+⅛
CMG Info	15,435,700	184⅛	−5¼
Oracle	15,019,100	38¾	+⅛
CNET	14,809,100	111⅛	+7¼
Novell	14,506,400	23½	+⅛
ParamT	13,018,500	18	+1½

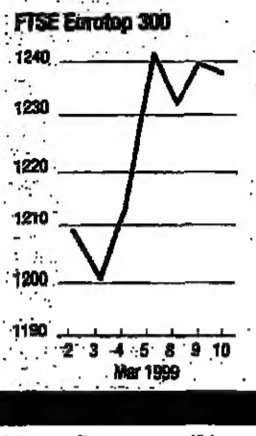
BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
InsightEnt	27	+4	+17.4
CBT ADR	13⅜	+1⅞	+16.0
CntSys	20⅜	+2⅜	+15.4
Lycos	96¼	+12⅜	+14.8
Downs			
Videvr	10⅞	−2⅛	−15.9
SchlmbgnA	13⅜	−2	−12.9
Mestech	19⅞	−2⅞	−12.8
Lam Rsch	30⅜	−4⅜	−12.0

Dow Jones



FTSE Eurotop 300



JAPAN

	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	15480.00	15096.70	14779.05	17264.3	12880	38915.9	85.25

Day's high: 15494.83. Day's low: 15134.05.

TOKYO TRADING ACTIVITY

Volume : 982,780,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
FujiBk	37,780,000	593	+78
Sakura	36,730,000	302	+41
NpSti	33,768,000	236	+8
Tshiba	20,590,000	840	+27
NikkoS	15,219,000	440	+51
Nomura	14,816,000	1070	+70
SumMt	13,280,000	125	+3
Kmatsu	13,074,000	116	+8
Hitachi	11,875,000	848	+40
DaiwaSc	11,057,000	598	+55

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Daikyo	184	+50	+37.3
TkoLnd	132	+20	+17.9
KnkmPk	674	+100	+17.4
NwJpSc	143	+21	+17.2
Sakura	302	+41	+15.7
SumMtM	505	+67	+15.3
Downs			
TehbMa	232	−14	−5.7
SamBd	768	−38	−4.7

FRANCE

	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4162.31	4159.80	4175.97	4388.48	2862.54	4388.48	984.61

Day's high: 4185.53. Day's low: 4146.28.

PARIS TRADING ACTIVITY

Volume : 447,727,400

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Axa	2,638,733	121.5	+5.7
CCF	1,249,855	87.55	+4.15
FrTele	1,158,123	81.75	+0.25
ElfAqu	1,110,272	111.8	+3.3
TotalB	881,030	104	+1.1
Alctel	777,441	115.6	−0.4
Renault	786,339	36.56	−1.07
RhonPA	548,921	42	+0.06
AGF	542,553	50.6	−0.2
Alstom	478,714	24.08	+1.28

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
GrAndr	116.8	+9.8	+9.2
SGE	42.7	+2.4	+6.0
Alstom	24.08	+1.28	+5.6
Finexa	94.5	+4.5	+5
Downs			
Valirc	26	−2.5	−8.8
Eltge	61	−5	−7.6
BIC	46	−1.9	−4.0
CastDo	190	−7.8	−3.9

GERMANY

	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
DAX	4721.41	4758.46	4788.69	6171.43	3896.08	6171.43	931.18

Day's high: 4807.71 Day's low: 4704.96.

FRANKFURT TRADING ACTIVITY

Volume : 10,899,604

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Bayer	583,401	33.4	+0.8
BASF	429,001	31.6	+0.2
DrsdBk	370,140	33.7	+2.6
Cmmzbk	324,125	25.85	+0.55
Dt Bk	307,119	47.7	+1.6
DmlrCh	286,948	80.3	−2.1
Siemns	202,887	57.3	−1
Veba	197,083	48.7	+1.4
Dt Tel	195,350	39.1	−1.3
H'chst	179,929	41.7	−0.1

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
DrsdBk	33.7	+2.6	+8.4
HorBmk	25.5	+1.5	+6.3
BayHyV	54.2	+2.6	+5.0
Downs			
SAP Pf	280	−20	−6.7
VW Pf	32.4	−2.1	−6.1
SKW	19.2	−1.2	−5.9
CelPrt	60.5	−3.5	−5.5
RhönPr	85.5	−4	−4.5

UK

	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
FTSE 100	6241.5	6237.7	6208.8	6307.6	4648.7	6307.6	986.9

Day's high: 6242.1. Day's low: 6188.6.

LONDON TRADING ACTIVITY

Volume : 1,140,809,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Woolwich	50,892,360	397½	−3¾
Shell	25,111,670	383	−4¾
Centrica	24,502,790	116¼	−¼
BTR Siebe	21,882,790	277½	−2
Smith&Neph	19,000,890	174	−2
BP Amoco	17,857,340	929½	−½
Tesco	16,805,990	167	−¼
Signet	15,583,510	45¾	+1¾
Incepta	15,471,130	20	
Hemingway	14,095,150	23	+1¼

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Geo Int Media	65	+16	+32.7
Peel	633½	+134½	+27
Xavier	27½	+15	+22.2
Arcolectric	53½	+9¾	+22.2
Metalen	551	+98	+21.6
Sports Inet	135½	+20½	+17.8
Downs			
Gresham Hse	21½	−9	−29.5
Cons Coal	259	−105	−28.3

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	1279.00	1282.00	+2.20	1284.20	1278.40	137,125	257,139
Jun	–	1292.30	–	–	–	33,104	151,508

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	15180.0	15430.0	+350.0	15490.0	15150.0	35,112	100,235
Jun	15150.0	15390.0	+340.0	15430.0	15080.0	19,829	117,038

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4208.0	4165.0	−7.0	4238.0	4160.0	45,049	141,808
Jun	4137.0	4128.0	−6.5	4161.5	4126.5	1,636	9,527

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	4820.0	4730.0	−58.0	4828.0	4698.5	43,936	236,550
Jun	4848.0	4756.0	−57.0	4854.0	4727.0	7,816	145,412

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	729.00	718.00	−10.0	730.00	715.50	10,499	117,768
Apr	725.00	716.50	−11.25	725.00	716.25	280	5,253

EUREX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Mar	7301.0	7204.0	−76.0	7317.0	7200.0	26,657	128,464
Jun	7248.0	7146.0	−77.0	7247.0	7147.0	9,811	16,648

WORLD MARKETS AT A GLANCE

Country	Index	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Yield	P/E
Argentina	General	16840.18	16703.29	16672.35	29485.58 23/3/98	12303.10 10/9/98	4.23	12.7
Australia	All Ordinaries	2931.4	2920.8	2929.6	2940.50 4/2/99	2458.20 1/9/98	2.93	23.1
	All Mining	572.2	568.7	570.5	713.10 23/4/98	499.80 31/8/98		

Pushed forward with bonds and resurgent A$. Resources and banks outpaced while falls narrowly outnumbered rises.

Country	Index	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Yield	P/E
Austria	ATX Index	1182.17	1188.79	1182.66	1838.58 26/5/98	982.08 1/10/98	2.01	12.4

Buoyant banks failed to keep shares positive.

Country	Index	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Yield	P/E
India	BSE Sens.	3743.37	3784.11	3732.10	4280.96 21/4/98	2764.16 20/10/98	na	na
	S & P CNX 500	747.78	738.71	735.01	815.82 21/4/98	557.88 20/10/98		

Sent lower as profit-taking took the steam out of the post-budget rally.

Country	Index	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Yield	P/E
Indonesia	Jakarta Comp.	373.80	379.42	384.56	554.16 2/2/98	256.83 21/9/98	2.49	17.2

Slid further with the rupiah amid continuing political and economic uncertainty. Falls trebled rises.

Country	Index	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Yield	P/E
Portugal	BVL 30	4535.78	4579.23	4771.27	6176.89 22/4/98	3599.08 2/10/98	2.1	26.7
	PSI 20	10455.31	10785.83	11004.88	14283.60 22/4/98	8114.81 2/10/98		

Swung lower in thin trading volumes.

Country	Index	Mar 10	Mar 9	Mar 8	1998/99 High	1998/99 Low	Yield	P/E
Russia	RTS	78.521	73.70	(c)	411.61 5/1/98	38.53 5/10/98	na	na

Late wave of buying pushed shares higher.

THE NASDAQ-AMEX MARKET GROUP

3:30 pm March 10

AMEX

3:15 pm March 10

EASDAQ

STOCK MARKETS

Surprise BNP move fails to inspire equities

WORLD OVERVIEW

A surprise hostile bid in the French banking system failed to do much to inspire world equity markets yesterday, *writes Philip Coggan.*

The bid by BNP for Société Générale and Paribas caused plenty of excitement in the European banking sector. Analysts reckoned that, if the deal went through, it would spur other leading groups into action.

The Paris market edged higher on the news but Frankfurt fell more than 1 per cent and the Euro Neuer Market, which specialises in smaller companies fell nearly 5 per cent in response to investor worries about growth prospects at one of its star performers, Mobilcom.

Asian markets had enjoyed a pretty buoyant day with the Tokyo bourse in particular being carried higher by further reaction to Sony's restructuring plan, which investors hoped would set an example to other Japanese businesses. The Nikkei 225 average gained 2.5 per cent and consolidated its position above the 15,000 level.

Wall Street started in rather mixed fashion, despite the encouragement given by Alan Greenspan, the US Federal Reserve chairman.

Speaking at a conference on Tuesday, Mr Greenspan said: "Growth of output has remained vigorous, unemployment is lower than it has been in nearly 30 years and yet, despite the tautness in labour markets, there have been no obvious signs of emerging inflation pressures."

Those comments appeared to calm fears that the Federal Reserve was about to raise interest rates, after some strong US economic data recently.

However, Lombard Street Research argues that US inflation, now 1.7 per cent, could reach 3 per cent by the end of this year and 4 per cent by the end of 2000.

Lombard Street argues that US inflation "has been held down mainly by reductions in import and oil prices, and the knock-on effect of brutal worldwide manufacturing competition on US industry.

"Inflation would have been nearly 2 per cent higher during 1998 without these benefits."

The economists add that "recent rapid growth has left US gross domestic product 2.7 per cent above productive potential and 1999 will see continued above potential growth. Import and oil prices are not expected any longer to provide a deflationary offset to excessive domestic demand."

The resulting rise in inflation, believes Lombard, will drive bond yields towards 6.5 to 7 per cent in the next few months.

Dow gains as Fed chairman raises spirits

AMERICAS

Market-friendly comments by Federal Reserve chairman Alan Greenspan on Tuesday helped to raise spirits on Wall Street and stocks, weak early in the session, drifted higher at midday, *writes Richard Waters in New York.*

The Dow Jones Industrial Average was 47.17 higher at 9,740.93 while the broader Standard & Poor's 500 index edged up 1.72 to 1,281.56. The Nasdaq composite index rose 1.22 to 2,394.16.

Among the winners in the Dow, DuPont rose $3⅝ or more than 6 per cent to 56\frac{11}{16}$ after the company announced plans to launch a separate tracking stock to reflect the performance of its life sciences business.

Oil stocks in the Dow also performed strongly as oil prices rose in early trading on the prospects of reduced output by Opec members. Exxon jumped $2⅜ or 3.4 per cent to 72\frac{3}{16}$ while Chevron rose $3 or 3.8 per cent to 82\frac{11}{16}$.

Many tech stocks remained mixed on continuing concern about the profits outlook for many leading companies in the sector. Computer Associates fell 5\frac{3}{16}$ or 15 per cent to 33\frac{11}{16}$ after a downgrade by Morgan Stanley Dean Witter.

The semiconductor sector rebounded from recent weakness, with leader Intel up $2¼ to 117\frac{13}{16}$ after its recent settlement with government regulators.

Sears Roebuck rose $⅝ to 44\frac{3}{16}$ after announcing plans to repurchase up to 1.5bn worth of stock.

Bonds pulled back after a string of strong sessions ahead of economic figures due out later in the week, including retail sales and producer prices. By early afternoon, the benchmark 30-year bond was $\frac{3}{32}$ lower at 95$\frac{13}{32}$, sending the yield higher at 5.558 per cent.

Small company shares moved higher, sending the Russell 2000 index almost 1 point higher to 400.18.

Banking shares were mostly higher, led by Citigroup, which benefited from an upgrade by Morgan Stanley Dean Witter. The stock rose $⅞ to $63⅞.

TORONTO was higher at midsession as oil and gas stocks put in a strong performance. The TSE-300 composite index had climbed 56.23 by noon to 6,544.60 in volume of 55.4m shares worth C$1.1bn.

The rise for the oil group was fuelled by a jump in Brent crude oil futures after Gulf Arab oil ministers said on Tuesday that production cuts should be "considerable" and sufficient to cut excess stocks.

In the oil group, Talisman Energy was up C$1.50 to C$28.50 and Imperial Oil rose 50 cents to C$26.40.

The industrial products group also showed resilience. Northern Telecom jumped C$3.90 to C$92.15.

The rise came after Nortel said AT&T has selected it as a potential supplier for advanced voice switching systems to support AT&T's Worldwide Intelligent Network.

São Paulo advances on currency optimism

SAO PAULO was sharply higher on optimism that the government was well on the way to solving the country's currency crisis.

Sentiment, already bullish after an IMF deal secured loans worth $4.9bn, was boosted by a successful first round of a vote on a bill that would raise a financial transactions tax.

The Bovespa index was 2.7 per cent higher, adding 252 to 9,736 in early trading despite a steadily rising Real.

BUENOS AIRES followed the positive lead from Brazil, with the Merval index up 4.46 or 1.1 per cent to 395.52.

MEXICO CITY was lifted by lower-than-expected February inflation figures and declining short-term interest rates.

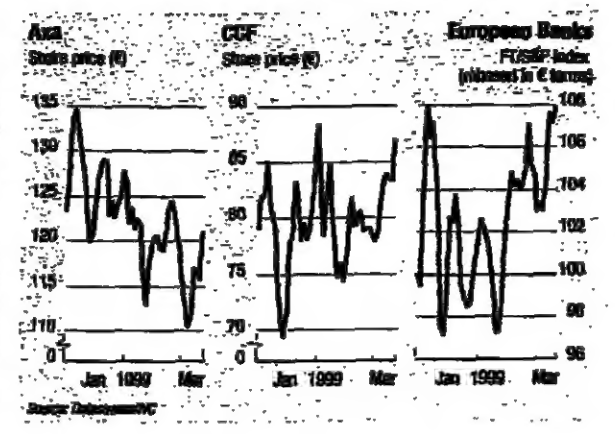
The IPC index was 61.52 or 1.3 per cent higher to 4,629.62 amid moderate volume of 15m shares.

Bank bid dominates bourses

EUROPE

BNP's shock takeover bid for merging banks Paribas and Société Générale dominated trading. The hostile offer, the first in France for a decade, sent speculation rippling across Europe.

Analysts said the bid, which would create the largest European bank by asset value, could unleash a wave of foreign counterbids. The transaction could also boost domestic consolidation.



Shares in the three banks were suspended for the day but insurance company Axa, a supporter of the takeover with stakes in all three, added €5.70 to €121.50. CCF, still considered a bid target, came within 5 cents of its all-time peak before settling €4.15 higher at €87.55.

In Madrid, Argentaria, up 52 cents at €21.17, and BBV, up 27 cents at €13.33, were the biggest gainers while Sweden's SEB gained SKr4 to SKr103.

Unidanmark contributed to the M&A frenzy when it said it would merge with insurer Tryg-Baltica, adding DKr28.26 to DKr470.26.

In Germany, Dresdner Bank, which has links with BNP, added €1.72 or 6 per cent to €33.10. Deutsche Bank, invariably seen as a potential suitor in any banking reshuffle, added 98 cents at €47.52. Dutch leader ABN Amro barely blinked, hardening 10 cents at €17.60.

Swiss banks were given an early boost but the sector soon ran out of steam. UBS, which reports 1998 results tomorrow , gave up SFr5 to SFr482 while CS Group fell SFr1 to SFr252.

Italy's fast consolidating banking sector came under renewed scrutiny. BCI rose 8.6 per cent to €6.93 and Banca di Roma 2.3 per cent to €1.36. Executives from the banks met on Tuesday but would not say what was discussed.

Unicredito gained 6.1 per cent to €5.21 as investors judged it a likely merger partner for BCI if the talks with Banca di Roma failed.

Banks apart, **PARIS** laboured through an uncertain day, with the CAC-40 ending up 2.51 at 4,162.31 after turning negative at midsession.

Construction group SGE provided much of the action, rising €2.40 or 6 per cent to €42.70 after posting better-than-expected 1998 results.

High-tech issues Cap Gemini and STMicroelectronics struggled as their US peers came under pressure. Cap Gemini closed €5.90 lower at €156.10 while STMicroelectronics shed €3.20 to €84.30.

FRANKFURT retreated for the third day with the sellers targeting cyclicals. The Xetra Dax index finished 60.42 lower at 4,730.05.

Thyssen, hit by worries about potential strikes, shed €5.30 at €158.70. Degussa Huels lost €1.40 at €31.80 and software leader SAP crashed €20.10 to €286.

DaimlerChrysler came off €2.50 at €80 after it announced the breakdown of talks aimed at links with Nissan of Japan. BMR fell €19.90 to €605.10.

Adidas stayed weak following Tuesday's downbeat trading statement, slipping €2.60 to €77.35 for a two-day decline of 9 per cent.

Munich Re added €2 at €184.50 after an upgrade to "market outperform" at Goldman Sachs which reset its target price at €208.

In the Neuer Markt, Mobilcom continued to slide, tumbling €23 to €260.

AMSTERDAM ended 1.61 lower at 520.66 on the AEX index after a session of mixed trading in below average volumes.

Telecoms leader KPN added 65 cents at €41.80 ahead of next week's results statement. ASM Lithography, which stood at €12.62 a year ago, lost €1 or 2.7 per cent at €36.45 amid rumours of tough trading.

ZURICH gave back early gains as losses in Roche and Novartis sent the SMI index down to close 57.8 weaker at 7,209.4. Roche saw losses for a second day in spite of posting profit figures in line with expectations on Tuesday. The certificates finished SFr250 lower at SFr18,120. Novartis closed with a loss of SFr19 at SFr2,805.

MILAN saw renewed activity in the telecoms sector which, along with banks, drove the Mibtel index up 336 to 24,980.

Saving shares in Telecom Italia were suspended for excessive gains at €6.25 after exceeding the 10 per cent daily limit. The non-voting stock has been driven up by speculation that it could be converted into common stock as part of Telecom's defence against Olivetti.

Olivetti was little changed at €2.81 while Tim ordinary shares eased 1.9 per cent to €6.25 and the savings shares jumped 4.9 per cent to €3.72. Telecom ordinary shares rose 1.5 per cent to €9.89.

Fiat put on 2.9 per cent to €2.90 in further response to comments from top executives on Tuesday that the company had not abandoned its interest in mounting bids for parts of other motor groups.

HELSINKI ended a roller-coaster session 0.3 per cent higher, with the Hex index adding 16.30 to 6,395.20 after hitting a all-time high at 6,462.30.

Nokia, the market driver for most of the session, closed €3.10 higher at €138.50 but fell from a previous high after an unsteady Wall Street took the shine from its early rise.

Raisio fell sharply on news that Unilever had filed a complaint for patent infringement. The share later recovered ground, ending 2 cents lower at €5.81. The two companies are racing to launch competing cholesterol-cutting margarines in Europe.

Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Bertrand Benoit

Jo'burg ends seven-day rise

SOUTH AFRICA

Johannesburg called a halt to seven sessions of gains. However, the market picked up from its worst levels late in the day as golds picked up from their lows, ignoring a steadier rand.

The overall index finished 7.1 weaker at 6,279.5, golds were 8.1 easier at 984.3 and industrials edged 14.9 higher to 7,310.6

Tokyo rises on Sony shake-up

ASIA PACIFIC

Optimism over plans for restructuring at Sony and the banks kept **TOKYO** soaring for a second day, *writes Alexandra Nusbaum.*

The Nikkei 225 Average rose 2.5 per cent or 383.3 to close at 15,480 after trading between 15,134 and 15,484. This left the Nikkei 16 per cent higher than the level at the start of last week.

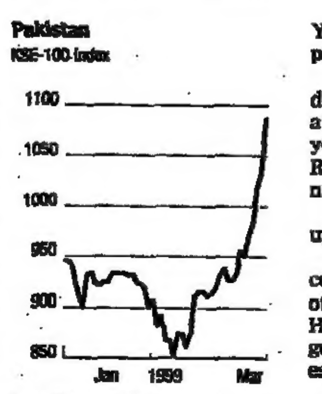
The more representative weighted Nikkei 300 climbed 5.34 to 238.16 while the Topix index of all first-section shares rose 24.96 to 1,187.47.

Momentum was up with 900 shares advancing, 302 declining and 112 unchanged. Traders reported heavy buying by foreign investors, but selling by domestic groups wishing to unwing cross-shareholdings.

Sony soared 8.3 per cent or Y910 to close at Y11,850, adding to Tuesday's 8.9 per cent surge when the group announced its restructuring plans.

Fuji Bank, the most heavily traded stock, rose 12.8 per cent or Y76 to Y593. Sakura Bank was up 13.5 per cent or Y41 at Y302. Both banks announced restructuring plans on Monday.

The securities sector climbed 8.7 per cent. Nikko Securities was up 11.6 per cent or Y51 to Y440. Daiwa climbed 9.2 per cent or Y55 to Y598. Nomura Securities rose 6.5 per cent or Y70 to Y1,070.



The marine transport sector rose 7.06 per cent in advance of anticipated freight rate increases. Navix Line, which will be acquired by Mitsui OSK on April 1, rose 8.6 per cent or Y5 to Y58. Mitsui OSK climbed 6.7 per cent or Y14 to Y207 and Nippon Yusen was up Y29 at Y435.

The electric machinery sector was up 4.2 per cent. Omron, which yesterday issued a profits warning and announced a restructuring plan, rose 6.8 per cent or Y95 to Y1,390. Oki Electric was up 5.7 per cent or Y24 to Y419. Hitachi jumped 4.72 per cent or Y40 to Y848.

Japan Tobacco closed down 4.76 per cent or Y50,000 at Y1m after announcing yesterday thatit would buy RJR Nabisco's tobacco business.

In Osaka, the OSE closed up 440 at 16,107.

KARACHI soared 4.1 per cent as hopes of a settlement of the tariff row between Hubco and the government generated new buying interest in all the blue chips.

The KSE-100 index rose 42.55 to 1,079.58 in heavy volume of 213m shares. The market was also boosted by news that the government planned to make its multiple foreign exchange rate system more market-based, moving it closer to the single rate demanded by the IMF.

HONG KONG closed sharply higher, boosted by overseas investors' interest in banks and technology-related issues as well as rumours of more New York listings for local companies.

The Hang Seng index closed 216.06 or 2.1 per cent higher at 10,749.01, off 10,813.61 in late afternoon trade. Turnover was a moderate HK$6.5bn.

Analysts attributed the market's confidence to Disney's interest in Hong Kong as a potential site for its next theme park, along with the joint venture announced by Hongkong Telecom and Microsoft on Tuesday.

Banking giant HSBC continued its strong rally, leaping HK$6 or 2.6 per cent to close at HK$237. The bank has announced plans to split its shares and seek a Wall Street listing by year-end.

Hutchison Whampoa, rumoured to want a New York listing, climbed HK$1 or 1.7 per cent to HK$59.75.

BANGKOK reversed Tuesday's losses to end 1.1 per cent higher on hopes that a financial reform bill, which is facing opposition in the senate, could be adopted tomorrow after a meeting between the finance minister and senior senators.

The SET index rose 3.69 to 333.28 on late buying after spending most of the day in negative territory.

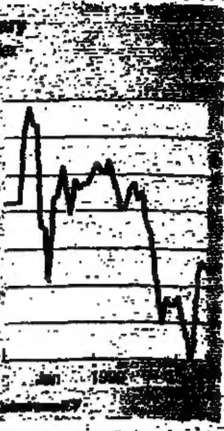
But gains were capped by fears that some of the 16 stocks suspended last week by the exchange could face delisting in the near future.

SINGAPORE pushed higher on good demand for property stocks which lifted the sector index 5.5 per cent. DBS Land rose 9 cents to S$2.40. Total market volume was a busy 331m shares and at the close the Straits Times index was up 29.01 or 2 per cent at 1,469.53.

EMERGING MARKET FOCUS

Budapest takes another beating

Hungary may be eastern Europe's healthiest economy but an investor who put his money in equities on the Budapest stock exchange in mid-January could be forgiven for forgetting it.



From a high of 6,943 on January 10, the market fell steadily until March 4 when the Bux index hit a low of 5,258, a fall of 24 per cent.

The falls are nothing like as sharp as the near halving in value during last year's Russian crisis, but on this occasion there are no large external shocks – except the distant one from Brazil – to explain the collapse in a country which has 5 per cent economic growth and inflation falling into single digits.

The high proportion of foreign investors in the market will have suffered more because the losses were accompanied by declines in the value of the forint.

The poor performance comes in the wake of a bull run which saw the Bux rise from 1,500 in 1995 to more than 9,000 last April.

John Barnett, equities analyst at Raiffeisen Securities in Budapest, puts the falls down to bad news magnified by fear. The main news was December's current account deficit of $660m which pushed the year's total up to $2.3bn, 4.7 per cent of GDP, against $981m for 1997. Added worry came from the government's Ft59bn budget deficit for January, 15 per cent of the full year's budgeted total.

Even better-than-expected progress on inflation appeared to falter. The consumer price index for January was 9.8 per cent, against the 9.4 per cent forecast.

The wave of negative news reminded investors of Hungary's last major economic upset, in 1995. Then, a balance of payments crisis precipitated a sharp devaluation in the forint and a tough austerity programme.

Ildiko Fecser, director of the economics and analysis department at the Budapest exchange, believes the exchange was partly a victim of its own success, however. It is one of the few in the region where portfolio investors can get money in and out quickly.

However, a high proportion of December's balance of payments deficit was the repatriation of profits by a handful of foreign multinationals, partly for technical accounting reasons. In addition, many imports are capital goods to equip the new manufacturing industries fuelling Hungary's growth.

Ministers' efforts to explain the figures, however, fell on stony ground until this week. Then, January's current account figures, showing a deficit of just $171m, much less than the $290m consensus forecast, spurred a rally of nearly 8 per cent on Monday. The Bux closed at 5,889 yesterday, still in the red for the year, but well off its lows.

Historic price/earnings ratios on the exchange are 14 times, putting the market at about the same price level as others in the region. The forward p/e, however, according to John Barnett of Raiffeisen, is only nine, showing Hungarian companies' growth potential. He says that means Budapest equities are still undervalued.

Robert Wright